The Politics of Economic Reform in Sub-Saharan Africa

Final Report

Study Sponsored by the U.S. Agency for International Development

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CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

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Contents

Executive Summary

Objective. This report to the Agency for International Development is the culmination of a two-year study aimed at developing specific recommendations for managing policy reform in sub-Saharan Africa, with emphasis on the politics of economic reform and the special problem of improving African governance.

Scope. The report begins with a review of economic reform programs in sub-Saharan Africa, the main actors in the reform process, and the range of political factors influencing their behavior. From this framework it proceeds to five case studies: The Gambia, Ghana, Kenya, Mali, and Zambia. Each case study traces economic and political developments over a period of active reform efforts and explores the influence of political factors on the progress or failure of reform. Two concluding chapters analyze patterns found in these cases and other recent studies and offer lessons drawn from this experience.

Economic Crisis. The economic crisis spreading over most of sub-Saharan Africa in the 1980s has led to the adoption of a wide variety of economic reform programs aimed at promoting economic recovery and sustained long-term growth. With sub-Saharan Africa highly dependent on external aid, the international financing institutions and the bilateral donors have a major stake and have been deeply involved in the reform programs. However, so far there has not been a decisive reform success on the sub-Saharan African mainland.

Analytical Framework. The focus of the analytical framework for this study is on economic policy choice by African decision makers. The framework is based on two fundamental assumptions. First, decision makers have sufficient autonomy to choose between economic policy alternatives. Second, they base their choices on a mix of ideas about what is wrong and what will fix it and a mix of personal and political interests. The study explores the range of these ideas and interests, how they influence behavior, and how donors may take these factors into consideration in the granting of aid and in assisting in the design and execution of reform programs tied to external aid.

Country Case Studies. The five case studies reveal important common themes but also the wide diversity of conditions among the countries of sub-Saharan Africa. In all cases external donors played a major role in fostering reform programs, but the extent of local initiative, acceptance, and commitment varied greatly, as did the pursuit of the programs and their short-term success. None can yet be judged a success in the long term.

The Gambia. The Gambia initiated its Economic Reform Program in 1985. The country depended on foreign aid to fill gaps in its budget and balance of payments. Donors refused the necessary aid until the government undertook serious economic reform. Under an able and honest minister of finance, with the backing of the president, the program achieved considerable success despite initial opposition from many quarters. The reform program, developed by a team of Gambian officials drawn from various economic ministries, included exchange rate reform, the promotion of agriculture and other productive sectors, civil service and state-owned-enterprise reform, fiscal and monetary reform, and reorientation of the public investment program. The reforms were implemented over several years and were accompanied by a rapid improvement in economic conditions. However, with an easing of economic conditions and the death of the minister of finance, maintenance of the reform programs began to slip. By 1990—the end of the period of the case study—customs fraud was still a problem, and budgetary discipline was eroding.

Ghana. Flight Lieutenant Jerry Rawlings inherited an economy in desperate straits when he took power in 1981. The Soviets and East Europeans turned down his request for financial help, suggesting instead negotiation of a stabilization program with the International Monetary Fund. In 1983 the Ghanaian government implemented an Economic Recovery Program, devaluing the currency, raising prices on basic staples, and instituting other reforms in what became one of the earliest, broadest, and best sustained reform programs in Africa. The turnaround in economic policy in Ghana illustrates the way in which severe economic problems can lead to acceptance of reforms, the international financial institutions can strengthen the hand of reformers within the government, and the skills of a president and his minister of finance can bring success in negotiating reforms with external aid agencies and implementing them at home.

Kenya. The economic performance of Kenya has been comparatively good over most of the period since independence in 1963. However, the 1979 oil price increase and collapse of the coffee boom—coming on top of a decline that started with earlier oil shocks, booms in coffee and tea, substantial foreign borrowing, and expansion of the state sector—produced a balance-of-payments crisis and forced the government to seek help from the IMF. The Kenyan case depicts a cycle of political influence shifting back and forth within the government—between treasury technocrats when a balance-of-payments crisis required reform as a condition for international financial support and the spending ministries when the crisis abated and the government turned back to satisfying local constituencies. A second phase of reform began in 1985 when three particularly capable senior economic officials wrote and published an assessment of economic problems and solutions, arguing that the private sector should be the predominant engine of economic growth. Since then Kenya has made progress on trade liberalization, price control, and financial market deepening. However, there has not been much progress with decontrol of domestic food marketing or public sector restructuring, which are more controversial.

Mali. Mali is still undergoing a major political transformation from one-party government to multiparty democracy, following the overthrow of General Moussa Traoré in 1991. However, the former government was already cooperating with international donors to carry out structural adjustment and economic policy reforms. With its large, sprawling, sparsely settled, landlocked territory; arid, drought-prone climate; and dearth of mineral resources, Mali is in a basically unfavorable economic situation. This was aggravated after independence in 1960 by adoption of doctrinaire Marxism and expansion of the state's role in the economy. After he consolidated his power in 1975, Traoré, a cautious pragmatist, first continued the Marxist policies of earlier governments, then tried home-grown structural adjustment measures, and finally yielded control of economic policy to the IMF, World Bank, and other donors. Mali's efforts at economic reform have included elimination of price controls, banking sector reform, budget balancing measures, and the reorganization, sale, or liquidation of state-owned enterprises. The reforms undertaken have not been sufficient to overcome Mali's basic disadvantages. Discontent over economic conditions, particularly corruption and ostentatious living by high officials, was a major factor in Traoré's removal.

Zambia. Over 90 percent of Zambia's export earnings derive from the export of copper. Briefly during the 1970s copper prices surged, then fell, prompting the government first to spend heavily, then to borrow heavily to cover a widening balance-of-payments deficit. By the end of the 1970s the government was forced to negotiate a stabilization agreement with the IMF, which it implemented relatively successfully. A rise in copper prices in the early 1980s led to a surge in government spending and, after copper prices sank once again, to another crisis in the balance of payments. Once again agreements with the IMF were negotiated, but only partially implemented, and the economy continued to slide. In 1985 the government agreed to a comprehensive package of stabilization and adjustment reforms. In the end, however, the government failed to implement some of the reforms or to maintain those that had been implemented. In 1987, after bloody riots against the removal of subsidies on basic foodstuffs, the government jettisoned the reform program altogether. The case of Zambia illustrates failure due to a combination of poor design of reform programs, even poorer implementation, and lack of commitment.

Lessons. Analysis of the country cases and other recent studies yields a wealth of lessons on the effects of politics on economic reform efforts and the application of this knowledge to the design and implementation of reform programs tied to aid. These lessons are clearest and best understood when read in conjunction with the analysis in the chapters of the report. The following summary of important lessons distills the main findings, conclusions, and recommendations of this study.

Acceptance and pursuit of reforms:

African politicians, government officials, and members of the informed public are more accepting of the need for economic reforms today than in the early decades of independence. However, this acceptance appears to be based more on a recognition that past policies have failed and need to be changed than on a consensus as to the direction that reforms should take, such as reducing the role of the state in the economy and relying more on the private sector.

Economic crisis combined with pressure from external financing agencies has put economic reform on each government's political agenda. External agencies have played a decisive role in ensuring that reforms were undertaken and sustained.

The success or failure of reform efforts has depended, as well, on the severity of the economic crisis, the strength of the government, the degree of consensus among the policy elite, and the competence and political skill of top government officials.

The weight of political influence in most countries of sub-Saharan Africa remains with those opposed to reforms. Persuasion and education programs undertaken by external agencies have not created a sufficient constituency to counterbalance antireform forces. Commercial interests benefiting from reform are limited in number and likely to remain so until reforms stimulate much greater investment.

Part of the reason for the slow supply response by investors is that reforms, even when broad and sustained, have still been inadequate to create the minimum "enabling environment" for investment.

Despite opposition, African governments, both democratic and autocratic, appear to enjoy a measure of autonomy, or "policy space," that permits them to undertake reforms. There is encouraging evidence that African leaders are learning the extent of such policy space and gaining skill and confidence in implementing reforms.

There are cases, however, such as Zambia, where no amount of donor pressure—even terminating aid programs—can persuade or force a government to implement reforms. Reforms become feasible only with a change in leadership or a weakening or change of views of the constituencies opposed to reform.

Governance and democratization in Africa:

Donors have fostered a broad spectrum of reform efforts aimed at influencing the policies, structures, and functioning of public institutions in recipient countries. However, their sponsorship of reform has not extended to the unpredictability of the behavior of public officials, the absence of the rule of law, or the widespread corruption in many of the states of sub-Saharan Africa. These conditions exist in Africa, according to the view expressed by the World Bank, in large measure because of the absence of transparency and accountability in the way African governments function. Centralization of political power, lack of an independent judiciary, control of the media, and absence of opposition political parties have permitted governments to act without informing their peoples or seeking their consent. The Bank has been careful not to detail the political changes that would bring about greater transparency and accountability, but it seems clear that they would involve more open, competitive political systems typical of democratic government.

There have been dramatic changes in a number of African countries in 1990 and 1991. These changes resulted primarily from massive public discontent over the continuing economic failure of African governments. Discontent over economic conditions led to demands for political change. And change in one country increased the pressure for change in neighboring states.

Whereas the primary impetus for economic reform has come from donors, the driving force for political change appears to be internal, not external.

Experience in countries such as The Gambia indicates that a democratic government does not necessarily guarantee good governance. Transparency and accountability may exist in theory, but they will not secure good governance unless the citizenry is active politically and calls elected officials to account.

Many inside and outside of Africa perceive democracy and development as being linked, the one likely to promote the other. Reality may be more complex and less reassuring.

The evidence from sub-Saharan Africa and developing countries of other regions indicates that good governance is necessary for economic growth to occur, but not that democracy guarantees good governance or that autocratic rule precludes it.

Given the present state of political development in most of the states of sub-Saharan Africa, it is not clear that political liberalization will necessarily put the governments there in a stronger position to exercise the kind of economic discipline that has characterized cases of sustained economic development throughout the world since 1945.

Many of the new governments in sub-Saharan Africa owe their rise to power to constituencies that are the beneficiaries of current policies and practices inimical to economic growth. These governments face the dilemma that they may be able to improve their economies only by austerity measures falling hardest in the short run on the supporters who brought them to power. Whether they can survive and progress depends on the amount of "policy space" they can muster with donor support and their own political skills.

With their depressed economies, the states of sub-Saharan Africa must have external financial support to carry out policy reform. However, in relieving economic distress such aid often weakens the incentives to make the hard policy choices essential to economic recovery and sustained long-term growth. Donors intent on supporting both a transition to democratic government and economic policy reform will face the dilemma of whether to give priority to the political survival of the fledgling government or to economic change. In aid programs political and economic objectives have often been, and will often be, in conflict.

"Political economy lessons" for policy reform practitioners:

Policy-based program support is inherently risky business; it does not automatically support adjustment efforts.

AID policy-reform practitioners need to realize that conditionality is a blunt instrument for promoting broader economic reform.

AID practitioners should not assume that program conditionality is in any way sufficient to achieve policy reform targets; holding back resources is an important instrument in gaining leverage for policy reform.

While AID practitioners should become less dominating in the design and initiation phase of policy reform, they need to become more cognizant of, and involved in, the subsequent phases of the process.

If there is not a very enthusiastic and competent senior official of the African state actively promoting the reform program, the program activity should probably be reconsidered and postponed.

At a time when foreign technical assistance in Africa is under intense (and largely justified) attack, AID practitioners should avoid the temptation of leaving the implementation of policy reform out of their agendas.

The external agencies will have to remain actively involved in the promotion of economic reform in Africa if these programs are to endure.

Policy reform efforts are not doomed to failure, but AID officers need to think about policy reform not only in the short-term sense of specific policy-reform programs but also in the longer-term sense of shaping an improved societal environment for reform.

AID policy reform practitioners need to think much more directly about how economic policy changes can improve the investment climate and generate more investment. They also need to work more directly with the private sector to ensure that it is able to respond successfully to the new environments that policy change creates.

In a negative political environment it might make more sense to let governments learn through experience the futility of alternative approaches, rather than attempting to push through a politically unrealistic adjustment program before the conditions are appropriate.

AID practitioners need to strike a balance between economically viable and politically feasible policies.

Policy reform program design issues:

AID practitioners need to take political issues seriously at the design stage of policy-oriented programs.

For sector assistance programs, AID missions should build politicial analysis into the design process itself, in order to better ensure that the outcome of the process is a politically feasible program.

Donor coordination and policy dialogue issues:

The World Bank can no longer be consistently looked at as representing "toughness." As a consequence, relationships between AID missions and the Bank are likely to be much more varied, and there will be an even greater need for an independent AID voice on reform issues.

Policy dialogue along with effective technical assistance, rather than conditionality, are the most important ways in which AID can help achieve substantial policy and institutional reforms in Africa.

Getting the "how much" question right has important political consequences in that policy reform failure (or irrelevance) can often generate cynicism both on the part of government officials and among the groups in society, such as farmers and businessmen, whose responses are crucial to the economic success of reform.

A major political lesson for AID practitioners is that the policy dialogue is not over when the program is signed on.

Program implementation issues:

A major lesson from policy reform efforts thus far is that donor officials have consistently overestimated the capacity of organizations involved in the implementation of reform while underestimating the complexity of the reforms themselves.

One key to improving AID's policy reform efforts in Africa in the 1990s will be active involvement in changing the role of government institutions.

In addition, AID practitioners, including senior Bureau management, must recognize that the implementation phase of reform will be heavily staff intensive if it is to be effective.

About the Authors

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Foreword

This report to the Agency for International Development is the culmination of a two-year study aimed at developing specific recommendations for managing policy reform in sub-Saharan Africa, with emphasis on the politics of economic reform and the special problem of improving African governance.

For most of the 45 years since the end of World War II relations between the rest of the world and the countries of sub-Saharan Africa were dominated by considerations of the Cold War. A fundamental interest of the United States and its closest allies was to prevent Africa from falling under the sway of the Soviet Union. As Michael Clough wrote in *CSIS Africa Notes* of January 1990, "... despite much lofty language about development and democracy, debates regarding Africa centered on strategies and tactics to counter Soviet influence."

Like the colonial era before it, the Cold War has ended, but the effort to maintain Western influence has left the industrial democracies deeply engaged in Africa. Western interests have come to transcend the strategic, diplomatic, and commercial importance of the region. There is concern over preserving the natural wonders of the continent, alleviating the suffering of the people, and achieving social justice. Ethnic ties felt by people whose forebears came from Africa are an increasingly important factor. It may not be an exaggeration to say that the Western powers feel a sense of responsibility for Africa, both to prevent a catastrophe there from impacting the rest of the world and to provide succor to their fellow humans in distress.

Since the transition from colonies to independent states began 35 years ago, the industrial democracies have provided over $200 billion in economic assistance to the states of sub-Saharan Africa. Increasingly, such assistance has been conditioned on economic policy reform by the recipient states. Yet economic conditions in most of the states of sub-Saharan Africa are little better today than they were at independence. With some notable exceptions, the general trend for the last 10 years has been a steady decline.

We have brought to bear our scholarly and technical expertise, but, so far at least, we have not been able to bring about in Africa the economic successes that aid programs have helped to achieve in other parts of the world. Our aid programs have involved us deeply in the affairs of the recipient states, but our influence has not ensured success. There is an almost inescapable conclusion that we need to understand better than we have the functioning and effect of our programs if our aid to Africa is to benefit the continent as intended. An area where our understanding is admittedly meager is the way in which politics affects the outcome. The aim of this report is to add to that understanding, particularly as it may be helpful to the practitioners in A.I.D. who are responsible for formulating and carrying out our economic assistance programs.

Ernest Graves
Senior Adviser, CSIS
March 1992

Introduction

Carol Lancaster

The economic crisis which spread over most of sub-Saharan Africa in the early 1980s led to the adoption throughout the region of a variety of economic reform programs aimed at promoting economic recovery and sustained long-term growth. By the beginning of the 1990s nearly all African governments had initiated and implemented reform programs, usually over a period of several years. A few governments had maintained extensive programs of reform over nearly a decade. And some had resisted, reversed, or discarded reforms. Where economic reforms had been broad and sustained, the signs of economic recovery were promising. But at the time of this writing there was still no decisive economic reform success on the sub-Saharan African mainland. The significant new private investment required for such a success has remained elusive, even in those countries, like Ghana, with the most comprehensive program of economic reforms.

This record of economic reform in Africa raises several questions. Why were reforms adopted and sustained in some countries and not others? What sorts of reforms were most often initiated and implemented and why? Why was there still no African country in which reforms had stimulated the significant new investment needed to support self-sustained economic growth? What could be done by Africans and external agencies (international and national aid agencies) to improve the economic impact of reforms in Africa?

There are at present two main schools of thought on these questions. One is that reforms under stabilization and structural adjustment programs in sub-Saharan Africa have been thus far insufficient to create the economic incentives needed to stimulate new investment. More policy and institutional changes are required if reforms are to succeed fully. A second school of thought has it that the reforms included in even the most ambitious stabilization and structural adjustment programs are insufficient to produce an enabling environment for private investors, that the obstacles to investment include the behavior of politicians and government officials (unpredictability, corruption, reflecting the absence of the rule of law), and that until the political system itself is changed to ensure greater transparency, accountability, and predictability on the part of government officials (i.e., better "governance"), investors will remain wary of risking their capital in Africa.

This report focuses on the issues raised by the first of these schools of thought—that economic reforms may have been too few or inadequately implemented and maintained. There is considerable evidence from IMF, World Bank, and independent evaluations of the implementation and effectiveness of reforms that a number of reform efforts in Africa have remained limited in scope and duration and that the implementation of reform programs by African governments has often fallen short of commitments. It is clear that a major factor influencing the adoption, implementation, and maintenance of reform programs has been the political concerns of African decision makers. It is on these concerns, broadly defined, that this report focuses, to provide a better understanding of how they influence economic policy choices in Africa and how development practitioners might shape future reform programs to minimize political obstacles and so to promote broader and better implemented and maintained programs.

Methodology

This report does not question the need for reform in sub-Saharan Africa or the efficacy of the specific reforms undertaken. There is already a sizeable literature on both of these issues. The analyses and recommendations presented here will draw on the general literature on economic policy choice, on patterns of African politics, on what is already known from case studies on the politics of adjustment in Africa and elsewhere, and on additional insights provided by the five case studies undertaken as part of this project. The limited number of case studies on the politics of reform in Africa inevitably make conclusions and recommendations based on them more suggestive than definitive. The report has benefited immensely from the advice and contributions from all of the authors, in addition to advice and suggestions from Tom Callaghy, Joan Nelson, Steve Brent, and other CSIS and AID staff. While the authors owe much to the help from those who participated in the project, they are solely responsible for the conclusion reached, and no inference of endorsement by others should be drawn.

The report begins by describing the history and experience of economic reform in sub-Saharan Africa over the past decade. Chapter 2 then proposes a general framework for analyzing the politics of reform and a review of the patterns of African politics, including the political actors (domestic and foreign) commonly influencing economic policy choices in Africa. Chapter 3 provides summaries of the five case studies—The Gambia, Ghana, Kenya, Mali, and Zambia. Each of the cases analyzes the politics of economic reform over a discrete period of time and focuses on a limited number of reforms. Chapters 4 to 8 present each of the cases in detail. Chapter 9 draws together insights and policy implications from the cases and suggests approaches for incorporating an understanding of the politics of reform into the planning of economic reform programs, particularly by external agencies. The report ends with a chapter on the implications of the politics of reform in Africa for AID's own operations.

Part I.

Background to the Politics of Economic Reform in Africa

Chapter 1
Economic Reform in Sub-Saharan Africa: Meaning and History

Carol Lancaster

By the beginning of the 1980s it was clear that much of sub-Saharan Africa was suffering from its the worst economic crisis since independence. Export earnings were stagnant or falling. Import costs were rising. Production was slowing and increases in agricultural production in many countries were dropping below population growth rates. Investment was slowing and becoming less productive. Commercial lending from abroad had begun to slow for those African governments that had access to external borrowing. External debts, public and private, were large and becoming difficult to service. Something had to be done.

African governments turned increasingly to their foreign creditors for debt reschedulings. And they appealed to foreign governments and international institutions for expanded loans and grants. Public and private creditors typically responded by requiring African governments to adopt a stabilization program approved by the International Monetary Fund (IMF) before they would reschedule debts. And increasingly, international institutions and bilateral aid donors began to require the adoption of stabilization and structural adjustment programs as a condition for increased aid. The promotion of economic reform soon became a central focus of aid to Africa and an issue of high politics in the region.

The emphasis on economic reform marked a change in development thinking. During the 1960s, when many African countries attained independence, mainstream development thinking included the following elements. First, development was defined largely as growth and measured by the annual increase in Gross National Product. It was assumed that "a rising tide lifted all boats," including those of the poorest. Second, growth was viewed as a function mainly of investment both in physical and human capital. Foreign aid, by increasing the amount of capital and technical assistance, could raise investment and growth levels. It was further thought that industrialization was key to rapid growth and that industrialization could be encouraged through erecting protective tariffs around developing country markets to protect new industries from foreign competition until they could attain the experience and economies of scale to make them competitive globally. Finally, it was widely accepted that the state should play a major role in promoting rapid development, at the very least by helping to plan and guide needed investment.

During the first half of the 1970s mainstream development thinking shifted dramatically. Western development specialists found that the benefits of growth during the 1960s had not "trickled down" to the poorest segments of the populations of developing countries—that is, rural farmers and the landless. It was claimed by some that poverty had actually worsened despite the healthy growth rates throughout much of the developing world duringthe previous decade. Moreover, it was increasingly clear that import substituting industrialization had its limits: it encouraged the establishment of some new industrial enterprises, but these tended to be the smaller, less technically complex types of enterprises, for example, textile or footwear production. And even after years of existence, many of the new industries remained inefficient and their products high priced, enjoying monopoly positions behind protective trade barriers.

Dissatisfaction with the development experience of the 1960s led to adoption of a different approach as the 1970s wore on. This approach included concern for poverty alleviation and equity and attempted to address those concerns through foreign aid projects aimed at providing directly for the "basic human needs" of the poor, including the expansion of primary education, preventative health care in rural areas, nutrition intervention, and clean water. The approach of the 1970s also included a heightened emphasis on the development of agriculture, particularly small farmer agriculture. Foreign aid projects attempted to deal with all of these concerns at once with ambitious and complex "Integrated Rural Development Projects" to attack a broad range of obstacles impeding an improvement in the standard of living of the rural poor in selected areas. These projects often included the construction of rural roads, schools, primary health care facilities, agricultural research, and extension networks and potable water systems.

By the end of the decade of the 1970s a number of factors began to erode confidence in the basic human needs approach to development. Integrated rural development projects, particularly in Africa, were not working. The standard of living of the rural poor was not rising, and the projects themselves were often abandoned as soon as donor support was terminated. Research was beginning to show that the growth of the 1960s had brought some benefits to the poor, casting doubt on the conclusions of earlier studies. Finally, the increases in petroleum prices of the 1970s, the ensuing inflation and recession in the West, and the outbreak of the debt crisis in the early 1980s combined to depress growth rates in much of the developing world, focusing attention on ways to overcome stagnation and promote renewed growth and away from the redistributive development policies of the 1970s. Economic reform—creating the incentives for efficient production, investment, and growth—became the new focus of mainstream development thinking in the 1980s.

Economic reform programs in Africa are of two types: stabilization, such as exchange rate devaluation, restrictions on credit, and reductions in the government budget deficit, aimed at closing the gap in the balance of payments; and structural adjustment, including policy and institutional changes, intended to encourage a more efficient use of economic resources in order to boost long-term growth. Stabilization is typically the focus of IMF supported programs, with the Fund providing advice and financial support to governments through standby or extended fund facility loans or loans from one of their structural adjustment facilities. Structural adjustment reforms, both macroeconomic and sectoral, are normally the focus of World Bank supported reform programs and are supported by structural adjustment loans (SALs) and sectoral adjustment loans (SECALs). Stabilization and structural adjustment programs supported by the IMF and World Bank frequently overlap—and, on occasion, conflict with—one another. Recently, the content, focus, and terms of lending by the Fund and the Bank have converged, with the two institutions attempting to coordinate better their reform programs in particular countries through agreements among themselves and the reforming government on a Policy Framework Paper outlining the scope of planned reforms over a period of several years. Bilateral donors often cofinance reform programs with the Bank and normally attempt to coordinate their programs with both the Fund and the Bank.

The typical sequence of reforms is for stabilization measures to be implemented first, followed by macroeconomic adjustment measures and later by sectoral adjustment programs. There is a widespread belief among economists that an economy should first be stabilized (the gap in the balance of payments reduced, inflation brought down, government budgetary deficits reduced) before more fundamental adjustment measures are implemented. But this sequence has not always been followed. There are a number of cases in Africa where, because of economic conditions, political concerns, or the nature of relationships between the African government and a particular international financial institution, a sectoral adjustment program has preceded a broader structural adjustment program, adjustment programs in general have come before stabilization programs, or adjustment and stabilization have been undertaken simultaneously. However, it has been the practice among the IFIs to require that an IMF stabilization program be in place before a Bank-supported structural adjustment loan is negotiated.

When stabilization and adjustment programs began to be implemented widely in Africa in the beginning of the 1980s, it was generally believed that, once an economy was stabilized and needed policy and institutional changes implemented, production would expand to utilize existing capacity and investors would respond to new opportunities. Supporters of reform in Africa and elsewhere expected that the supply response to reforms would come within a relatively short period of months or a few years at most. The experience of economic reform in sub-Saharan Africa soon showed that this view was overly optimistic. The implementation of agreed reforms was often difficult and incomplete. Where reforms were fully implemented, their positive effects were at times offset by external shocks. And the implementation of the first-round reform programs revealed further policy and institutional changes that would have to be undertaken in later reform programs. As a consequence, there was a shift in views among development specialists during the 1980s regarding the scope of needed reforms in Africa and the time it would likely take those reforms to produce decisive results: more reforms would be needed in Africa maintained over a longer period of time for the expected private sector response to occur. The scope of needed reforms has expanded still further over the past several years to include political changes necessary to ensure better "governance," as well as the economic policy and institutional changes needed to ensure more efficient resource use.

The Stabilization Experience in Africa

In 1980 13 countries of sub-Saharan Africa initiated IMF approved stabilization programs. In 1982 there were 19 IMF stabilization programs in Africa south of the Sahara. Two factors gave rise to the rapid spread of stabilization programs in Africa. One was the sharp deterioration in the terms of trade of many countries in the region, as the prices of their primary product exports fell and the prices of their imports—mainly manufactured goods from the West—increased. Manufactured goods prices rose with high rates of inflation in the United States and Western Europe. The deterioration in their terms of trade meant that African countries would either have to cut back sharply on their imports—a politically risky and economically disruptive policy—or would have to fill the gap in their balance of payments with foreign loans or grants. The one source of rapidly disbursing loans for balance of payments financing was the IMF. But to have access to upper tranche IMF loans, borrowing governments would have to implement stabilization programs acceptable to the Fund.

The other impetus for African governments to undertake stabilization programs with the IMF was the problem of external debt. African governments that had borrowed commercially during the decade of the 1970s, when primary product prices were high and banks were eager to lend petro-dollar surpluses, found in the early 1980s that, as economic conditions began to deteriorate, they could not service those debts. Even African governments which had been too poor to borrow from foreign commercial banks had accumulated large amounts of debt through foreign aid loans. They too found that they could not service their debts. In order to obtain the agreement of private and public creditors to reschedule their debts, African governments were first required by those creditors to undertake stabilization programs with the IMF.

Several other factors added to the pressures on the Africans to negotiate agreements with the IMF. First was the publication of the 1981 World Bank report, *Accelerated Development in Sub-Saharan Africa*, which emphasized the policy failures of African governments and the need for economic reforms, especially in the areas of "trade and exchange rate policies, increased efficiency of resource use in the public sector, and improvement in agricultural policies."[1] This report initially stirred up considerable controversy, particularly among Africans, who, long accustomed to emphasizing the colonial experience or the unjust and exploitative international economy as causes for their economic problems, objected to their own policy failures being singled out for criticism.[2] However, among Western government officials the report provided the intellectual justification for the growing emphasis they were placing on the need for economic reforms in Africa.

A further factor was the election of conservative governments in the United States and Britain in the late 1970s and early 1980s. Both the Reagan and Thatcher administrations came to office with strong ideological predilections in favor of free markets, private initiative, and the private sector as the engine for growth. Their orientations at home extended to the policies of their administrations abroad, particularly in the area of aid and development. And free markets and capitalism in Africa would require economic reforms involving a reduction in the role of the state in the economy. As the 1980s wore on, Western governments and even the Soviets (unwilling to acquire any more expensive African clients) increasingly responded to requests from Africans for additional aid by urging them first to implement a stabilization program with the IMF.

By 1986 26 African countries had implemented stabilization programs supported by the IMF, and in most countries one stabilization program followed another. These programs had provoked much criticism in Africa. Africans argued that the Fund prescribed the same set of reforms regardless of differing economic conditions in individual countries, that the programs had particularly harsh effects on the poor, that they rarely succeeded in stabilizing the economies of reforming countries, and that even where they did, that stabilization was only achieved through restraining demand—costly in economic terms by depressing long term growth rates and risky politically if maintained over any length of time.

Fund officials responded that the stabilization measures it recommended were tailored to the specific conditions prevailing in individual countries, albeit many countries suffered from the consequences of expansionary fiscal and monetary policies, and there were a recognized set of solutions to those problems, including currency devaluations, reductions in government expenditures, and increases in tax revenues. IMF staff also pointed out that, while they recommended a set of broad policy changes and performance targets to borrowing countries, the specifics of how those targets were reached—including what government programs were cut back—were usually left to the government to decide. Thus the responsibility for the impact of stabilization programs on the poor or on particular segments of borrowing countries populations belonged to the government, not the IMF.

However, the Fund did become concerned about the effectiveness of its programs in sub-Saharan Africa. These programs were clearly not as effective as had been hoped in closing the gap in the balance of payments and helping borrowing countries return to sustainable growth paths. A 1981 study by the Fund suggested several reasons for the disappointing results of its programs in Africa.[3] First, a number of governments failed to implement fully agreed reforms. Second, even where reforms were fully implemented, external shocks often overwhelmed the positive impact of those reforms. Third, the design of some stabilization programs proved overambitious and their targets unachievable.

By 1983 it was not only the disappointing impact of Fund programs in Africa which was of growing concern to the organization and its directors. It was the amount of Fund resources being tied up in repeated Fund programs in African countries. In theory, an IMF stand-by program should disburse over a 1 1/2-to-2 year period, during which time the borrowing government would achieve stability in its external accounts and after which it would be able to repay its loans from the Fund. This was not happening in Africa, where one Fund program was following (and often refinancing) another. In an attempt to deal with the problem of Fund resources being tied up in successive programs in borrowing countries, in 1984 the directors of the IMF decided to reduce the amount of resources member states could borrow from the organization. The result was not a decrease in the number of Fund-sponsored stabilization programs in Africa but in the amounts the Fund loaned in support of individual programs. The drop in Fund loan levels meant that borrowing governments could no longer refinance their repayments of old credits to the Fund with new ones. By 1985 the Fund was receiving more in repayments from African countries than it was lending.

The net positive flow of resources from resource-starved African countries to the Fund further fueled criticisms of the organization. As the burden of external debt carried by many of Africa's poorer countries grew, the relatively hard terms of IMF loans—market rates of interest and repayment over five years—also became a source of concern. Poor African countries, like Mozambique, wanted to reschedule their debts, but they were required to implement a Fund stabilization program first. However, they were so poor and often so debt ridden that it was unreasonable to expect them to undertake loans on the hard terms associated with Fund credits.

In response to these problems, in 1986 the Fund created a new lending instrument, the Structural Adjustment Facility (SAF). The SAF would provide $3 million in loans on relatively soft terms (repayment over 10 years with five years grace at 1/2 of 1 percent interest) to debt distressed, poor countries worldwide willing to implement stabilization programs. The SAF was financed by repayments of loans made from the proceeds of IMF gold sales. In 1988 an Enhanced Structural Adjustment Facility (ESAF) was created with $8 billion available for lending on the same terms and conditions as SAF loans. Most borrowing countries were African.

The experience of stabilization in Africa during the early 1980s showed that while stabilization may be necessary, it was not sufficient to ensure economic recovery and renewed growth in the region. In addition to stabilization programs, more fundamental reforms would be necessary, implemented over a longer period of time and with larger amounts of soft loans and grants than were associated with IMF programs. And these more fundamental reforms could not be postponed until stabilization was achieved. Because of the severity of economic problems in most African countries, both types of reforms had to be undertaken at the same time.

Structural Adjustment in Africa

The World Bank made its first structural adjustment loan (SAL) in sub-Saharan Africa in 1980. By 1989 20 African governments had received SALs, four of them (Senegal, Côte d'Ivoire, Malawi, and Togo) having received three successive SALs. Also during the early part of the 1980s the Bank introduced a new adjustment instrument, the sectoral adjustment loan (SECAL), containing a cluster of reforms associated with a single sector, for example, agriculture or finance. The quantity of credits associated with these loans also tended to be smaller than those associated with the more ambitious SALs. And unlike SALs, governments receiving SECALs did not have to have an IMF stabilization program in place. The first SECAL in sub-Saharan Africa was made in 1981 to Tanzania, and by 1990 23 countries in Africa had received one or more SECALs, with SECALs more numerous than SALs after 1985.

The World Bank developed other instruments for adjustment lending, including "hybrid" adjustment loans which mixed traditional project and adjustment financing, usually with both the project and policy reforms concentrated in a single sector. Other international aid institutions—for example, the African Development Bank and Fund and the European Development Fund—also began making loans in support of structural adjustment reforms in Africa. Bilateral aid agencies, including USAID, France's Ministère de Cooperation, and the British Overseas Development Administration, provided loans and grants in support of adjustment. Some of these agencies, like AID, developed their own adjustment programs, usually with a sectoral focus. Others cofinanced World Bank adjustment programs.

The sense that past economic policies had not worked and that reforms were needed was widely acknowleged by most African leaders by the middle of the 1980s. In addition to the public speeches recognizing the need for reform and the programs of reform they had adopted, African leaders supported a document on Africa's economic and social crisis prepared by the Organization of African Unity and submitted to the United Nations which acknowledged the "inadequacy and/or misdirection of human and financial resources; inappropriate economic strategies and policies; poor economic management; inadequacies of the institutional and physical infrastructures; the persistence of social values, attitudes, and practices that are not always conducive to development..."[4] This view marks a shift in attitudes from those prevalent in the early 1980s, when there was a widespread tendency among African leaders, intellectuals, journalists, and others, both in Africa and the West, to assume that existing policies were the correct ones and to blame the region's economic ills on its colonial heritage, to continued economic exploitation by external interests, or to unfavorable trends in the international economy. While these factors are still viewed as influential by many, there is now a much greater readiness among most educated Africans to recognize that the past policy decisions of African governments and the behavior of African officials have been a major source of their countries' economic woes. However, widespread public recognition throughout the region that policy changes are needed has not eliminated wide differences of opinion over which reforms should be implemented, and it has not ensured that governments actually implement and maintain reforms to which they have committed themselves.

In 1989 the Economic Commission for Africa (ECA) published a study criticizing World Bank supported structural adjustment reforms as leading to the further impoverishment of the poor in adjusting countries and as failing to promote improved economic performance. The report argued for a return to state-led development, without however answering the question of why state-led development in Africa in the future would be any more effective than it had been in the past. While the statistical and analytical content of the ECA study was generally regarded as weak in the Western development community, the study did help heighten Bank awareness of African sensitivities to the deep and growing involvement of the institution in African economic policy making, and it spurred efforts by the Bank to assess the impact of adjustment on the poor. A number of studies were commissioned to examine that impact. The ECA study also pointed to the importance of participation of people in government and of the quality of governance in promoting development, issues that the World Bank and other aid agencies would soon raise in their own assessments of the course of adjustment in Africa.

The Economic Impact of Reforms in Africa

Several efforts undertaken mainly by the World Bank have attempted to assess the impact of reforms in Africa by comparing the economic experience of those countries implementing reform programs with those not undertaking reforms or with those only recently undertaking reforms.[5] These findings show the following patterns.

- A number of those countries undertaking "early and intensive" adjustment programs have experienced significantly improved rates of growth of gross domestic product, for example, Ghana, Togo, Madagascar, and Malawi.[6] Countries undertaking less intensive reforms or no reforms at all show significantly lower growth rates. However, some countries viewed as early and intensive reformers have also experienced slow growth, for example, Nigeria and Côte d'Ivoire.

- Agricultural production in the more intensively reforming countries has risen and appears to be keeping up with population growth rates.

- Exports of intensively reforming countries have tended to expand, as has the rate (albeit still low) of domestic savings, compared to countries undertaking fewer reforms or no reforms.

- Investment in these countries has risen, but only slowly, and remains far below the 25 percent of GDP considered the minimum for sustainable long-term growth. Figures on private versus public investment are not available, but it appears from anecdotal evidence that the levels of private investment in these countries remain low.

What we have is a picture of improving economic growth and export performance among early and intensively reforming countries, though not all countries included in this group show such improvements. Increased growth appears to be concentrated in agriculture and appears to be based primarily on improved use of existing capacity and in a small increase overall in investment.[7] These signs are hopeful. But they do not provide the basis for a decisive reform success. What is needed further is a sustained increase in private investment in industry (including goods and services) and both the technological improvements and public and private investments in agriculture (including infrastructure and research) which will create the basis for expanded production and improved productivity of land and labor in this key sector.

Several questions emerge from a look at the economic impact of reforms in Africa. Why have more countries not implemented intensive reform programs? Why have some countries failed to implement or maintain any significant reform programs at all? And why have those countries classified as intensive reformers not attracted more of the investment needed to sustain long term economic growth? General assessments of reform programs do not provide answers to these questions. They do not tell us which reforms the intensive reformers have implemented and how important they were for achieving an economic turn around. They do not tell us which reforms governments avoided implementing and which ones proved the easiest to implement and maintain. And they do not tell us why governments chose certain reforms and not others, why they implemented certain reforms and not others, and why they maintained or failed to maintain certain reforms. For answers to these questions, we need first a framework for analyzing the politics of reform and an understanding of the patterns of politics in Africa as they relate to economic reforms.

Notes

1. World Bank, *Accelerated Development in Sub-Saharan Africa*, Washington, DC, 1981, p.5.

2. See, for example, Caroline Allison and Reginald Green, "Accelerated Development in sub-Saharan Africa: What Agendas for Action?", *Institute of Development Studies Bulletin*, 1983, no. 14.

3. Justin Zulu and Saleh Nsouli, *Adjustment Programs in Africa: The Recent Experience*, International Monetary Fund Occasional Paper #34, Washington, D.C. 1985

4. Organization of African Unity, "Africa's Submission to the Special Session of the United Nations General Assembly on Africa's Economic and Social Crisis," OAU/ECM/2XV/Rev.2, Addis Ababa, March, 1986, p.9.

5. See for example, World Bank, *Adjustment Lending: An Evaluation of Ten Years of Experience*, Policy and Research Series, # 1, Washington, D.C., 1998 and *Adjustment Lending Policies for Sustainable Growth*, Policy and Research Series # 14, Washington, D.C., 1990. See also Paul Mosley, Jane Harrigan and John Toye, Aid and Power, Routledge, London, 1991.

6. There are inconsistencies in Bank assessments of the impact of economic reforms. In one 1990 publication—*Special Program of Assistance*—Malawi is classified as a good performer on reform enjoying high GDP growth. In another Bank publication the same year—*Adjustment Lending Policies for Sustainable Growth*—Malawi is shown as a lagging performer in terms of GDP growth. Assessments of individual country performance and aggregate assessments are sufficiently variable to suggest that case studies of individual countries are essential for understanding not only the politics but the impact of economic reforms.

7. The findings of Paul Mosley, *et.al.*, are somewhat less positive regarding the growth in gross domestic product and investment in reforming countries. Their work is based on a worldwide sample.

Chapter 2
Analyzing the Politics of Reform in Africa

Carol Lancaster

What are the key elements in understanding the politics of economic reform in sub-Saharan Africa? Who are the important players? How do they relate to one another? It is the task of this chapter first to present a framework for analyzing the politics of economic reform, second to review the patterns of African politics over the three decades since independence as they relate to economic reform, and third to identify issues on which the case studies in Part II can provide further insights on the politics of reform in Africa.

The Politics of Economic Reform: A Framework for Analysis

The focus of the analytical framework described here is on economic policy choice by African decision makers, usually senior officials in African governments.[1] The analytical framework is based on two fundamental assumptions. First, decision makers have sufficient autonomy to choose between economic policy alternatives. Decisionmakers are not simply unquestioning tools of domestic or foreign interests as has sometimes been argued by dependency theorists and others. And they face real policy alternatives involving whether or not to initiate economic reform programs; the pace, scope, and content of those programs; the presentation of those programs to their publics; and the implementation and maintenance of reforms.

The second assumption is that decision makers will base their policy choices on a mix of two factors: their *ideas* about economic conditions and how to address them and their interests, political and personal, as they are affected by those conditions and the various policy alternatives available to them. A set of *contextual factors* can also influence both the ideas and interests of decision makers as they consider economic reforms.

The ideas policymakers bring to their decisions are shaped by (1) their value systems and policy goals; (2) their perceptions of political and economic realities, derived from information available to them, plus their knowledge, past experience, and perceptions of the experiences of others; (3) and their views regarding the efficacy of particular policy tools for achieving their policy goals. Ideas—including values and the means to achieve them—may change on the basis of expanding information, knowledge, and social learning, including feedback from previous economic policy choices.

The interests decision makers bring to economic policy choices will typically include protecting national security, maintaining internal order, and retaining power and promoting economic development (which is also a means to these other ends). Some also bring to their public positions, or later develop, a strong interest in personal or family enrichment, preservation of social status associated with high political position, the creation of a ruling dynasty, and/or ensuring a favorable place in history. The personalities of political leaders and high officials can also play a role in the politics of reform, influencing policy choices, the pace and style of reform programs, and the way those programs are presented to the citizens of a country.

Policy choices have political costs and benefits deriving from the responses those choices evoke from internal and external actors, including groups, individuals, and institutions. The costs and benefits deriving from internal actors will be based primarily on the impact (anticipated or real) of policy choices on the well-being of those actors. Political costs may include public criticism of government for the reforms; opposition to reforms in legislatures, within government bureaucracies, or within parties; obstruction of the implementation of reforms by government officials; public strikes and demonstrations against the reforms; generalized political disorder (possibly leading to a military coup); or a failure of government to win reelection. Benefits can include increased support for government from those positively affected by the reforms. The costs and benefits of specific reform programs may differ over time, with the costs typically appearing immediately and the benefits over a longer period. Decision makers take into account their perceptions of these costs and benefits in making economic policy choices.

External actors (foreign governments, international institutions, nongovernmental organizations) can also produce costs and benefits of reforms for decision makers. Benefits can include increased external financing, support for debt relief, and encouraging or even lobbying international commercial banks and private companies to make new loans or undertake investments in a reforming country. Costs can involve a reduction or elimination in external financing, withholding support for debt reschedulings, and direct or indirect discouragement of commercial lending or private foreign investment. The influence of external actors will depend on the importance they ascribe to reforms; the unity among them; the acceptability or congruence of their recommendations on reform with the preferences of key decision makers in African governments; their political skills in creating alliances and support coalitions within those governments; the amount of financing they can offer or withhold; and the need for that financing by the country in question. For African governments, which are heavily dependent on external financing, external actors can play a major role in influencing decisions on economic policy choice.

Five *contextual factors* also influence economic policy choices, often by amplifying the costs or benefits of those choices. These include, first, the *political environment* in the reforming country. Where government legitimacy is weak, political stability uncertain, and the public discontent with government widespread, the political costs associated with particular reforms can be greatly amplified. For example, the introduction of particular reforms can spark major political turmoil. The dangers of amplification will be far less where a government enjoys legitimacy, stability, and public support.

The *structure of government* (e.g., whether it is autocratic or democratic) can affect the costs and benefits of reforms for decision makers by influencing whether and how individuals and groups aggregate and articulate their interests and what access and leverage they have with governments. It has been argued that reforms may be easier to implement in an autocracy than in a democracy since autocratic governments can ignore or suppress domestic political opposition to policy changes, whereas democratic governments may have to take that opposition into account. Others have argued that in the long run reform programs are more likely to be implemented and maintained in democracies, where popular participation in economic policy choice can produce a consensus on (or acquiescence to) reforms. Empirically based studies to date indicate that the structure of government is less important in the implementation of economic reforms than the strength of the executive (i.e., the breadth of its domestic support and its ability to resist internal political pressures). Another clear pattern regarding reforms in democratic regimes is that governments tend to be much more reluctant to implement them where they face an imminent election.[2] A further pattern is that authoritarian regimes appear more inclined to adopt more "orthodox" reform programs (involving the elimination of state controls in favor of freer markets and a reliance on private investment to fuel growth) while democracies tended more readily to adopt "heterodox" reform programs, relying on a greater measure of state intervention to bring about economic recovery.

The political, analytical, and administrative *capacity* of government will affect economic policy choices and their implementation. The stronger the capacity of government in all of these areas, the more likely economic problems will be identified soon and reform programs shaped and implemented effectively. Capacity in turn will depend on the education and training of government officials, the organization and leadership of government agencies, and the political skills of senior economic officials managing the reforms. Capacity will also depend on consensus among key economic officials on the need for reforms and the willingness of the political leadership, once a decision has been made to delegate responsibility for implementing and maintaining reform programs to economic officials. A government with high capacity does not guarantee effective reforms, but a government with limited capacity may find even the simplest reform programs difficult to implement and manage effectively.

The *type of reform* can play a role in the politics of its adoption and implementation, involving both public and bureaucratic forces. Reforms whose impacts (costs or benefits) are quick to appear, significant, concentrated on influential groups, and clearly linked to government decisions are more likely to produce a political response (opposition or support) than reforms whose impacts are long term, small, and diffuse and affect groups with little political access or influence. In addition, reforms which are technically complex, administratively intense, and must be implemented over a long period will be more vulnerable to bureaucratic obstructionism than reforms which are simple technically and administratively and can be implemented with a single action by government.

The *stage in the reform process* can produce different political reactions and so different costs and benefits for decision makers. The adoption of reforms may be politically the easiest stage, where the impact of the reforms remains uncertain. The implementation of reforms is the stage at which political resistance by those adversely affected is likely to appear. The maintenance of reforms can also prove politically challenging if groups adversely affected by them combine and continue to press for their reversal. Where adverse external shocks occur that add to the costs to reforms and strengthen resistance to them, their maintenance may prove so politically costly that they will be reversed. There are few reforms that cannot be reversed over time.

How do the elements in this framework interact to affect economic policy choices? One way of thinking about them is to posit two ends of a spectrum of possible interactions, one where all the elements favor the adoption, implementation, and maintenance of reform programs and the other where the elements militate against reforms. At the proreform end one would expect to see decision makers whose values coincided with the goals of the reforms (rapid and sustained economic growth) and the means of achieving those goals (reliance on the private sector) and who shared a perception that economic conditions warranted the adoption of reforms. The reforms promised to produce quick benefits and those benefiting from the reforms were organized, influential, and supportive of the reforms. Those bearing the burden of costs of the reforms were less organized and less politically influential. External agencies agreed with one another and with the government on reforms and were willing to support those reforms with generous external financing. The government had the strength and capacity to implement the reforms and the political skill to manage them in a way that minimized political discontent. The government, stable and legitimate, did not face general political discontent deriving from the failure of past reforms or other policy failures. Any external shocks amplified the benefits of reforms rather than the costs. At the antireform end of the spectrum, these conditions would be reversed. The general question now to be addressed is what do the patterns of politics in sub-Saharan Africa suggest about the location of the bulk of African countries on this spectrum.

Patterns of African Politics

Sub-Saharan Africa is a large and extraordinarily diverse region exhibiting a variety of social characteristics and political systems. Yet there have been shared patterns of political and economic organization throughout much of the region since the beginning of the independence period in the 1960s. A review of these patterns will highlight the common characteristics of African politics, including those that shape the politics of economic reform.

Most African countries gained independence with democratic political systems modeled on those of the colonial power. But with few exceptions, these structures were put into place only in the decade or two before the European powers relinquished control over their African colonies. At independence the political experience of most Africans beyond the village level had been one of autocratic rule by an alien power.

It was to autocratic rule that most African countries soon returned in the years after independence. One after another, African political leaders moved to centralize political power in their hands. They banned, absorbed, or harassed out of existence political parties other than the one they headed, producing one-party states. Party officials were typically appointed from above rather than elected from below. Legislatures, where they existed, tended to be rubber stamps for government. In a number of countries the independence of the judiciary was compromised as presidents claimed the right to hire and fire magistrates. Nongovernmental organizations, such as unions, youth groups, and professional associations were taken over by governments or absorbed by the sole political party. The media were similarly brought under government or party control or, if left independent, were sharply constrained in their ability to raise issues to which government was sensitive or to criticize government.

The centralization of political power was undertaken by elected governments (for example, that of Kwame Nkrumah of Ghana), often through public referenda or through the imposition of states of emergency in the face of alleged or real security threats (as in the case of Cameroon). Or political power was centralized by the military after they had seized power through a coup. Military governments often "civilianized" themselves through elections (usually carefully controlled), as in the case of Mali or Zaire. But power remained highly centralized in the hands of the president and his followers.

The political system prevailing in much of sub-Saharan Africa has been widely characterized as "personal rule,"[3] in which rulers obtained the support or acquiescence of the ruled through a mix of patronage and repression. Patronage—for example, employment in state sector, government contracts, access to economic rents including bribes, kickbacks, commissions and allocations of scarce foreign exchange and import licenses, loans from state financial institutions (often at below market rates of interest), and a host of other economic benefits—was drawn from state resources. These policies created large and often powerful constituencies (e.g., the civil service or key patronage networks) dependent on those resources and a source of potential opposition to the diminution of those resources through reform programs. Patronage networks are among the most important but, for obvious reasons, among the least transparent aspects of African politics.[4]

Along with the centralization of political power went a concentration of economic power in the hands of African leaders. Governments extended their controls over national economic activity through regulating prices, wages, and interest rates; through imposing tariffs and quotas on international trade; through requiring licenses for domestic trade and investment; through laws governing labor practices; through establishing or expanding the size and responsibilities of state-owned enterprises responsible for controlling exports and/or public utilities, and in some countries, through the outright nationalization of private businesses. These policies were often justified in the language of socialism. Most African leaders during the 1960s and 1970s espoused some form of socialism. Some expressed a commitment to "African socialism"—more a preference for rapid and equitable state-led development than a well elaborated ideology or economic program. During the latter half of the 1970s, a number of African governments, including Benin, Congo, Mozambique, and Ethiopia, adopted "scientific socialism" or Marxism-Leninism, in which the ruling party was the sole, vanguard party and the economy was brought largely under the control of government. In addition to ideological motivations for extending state control over resources, there were political motivations: efforts by governments to replace foreign ownership with national ownership through expropriation or indigenization policies; efforts by government to insulate key parts of the economy from adverse external shocks; pressures from commercial interests (usually small) for protection from competition from abroad; and access to resources to distribute as patronage.

The degree of political and economic concentration in government hands was never uniform in postindependence Africa. Several countries—for example, Mauritius, Botswana, and The Gambia—preserved open, competitive democratic systems, even if the sitting governments in the latter two countries were never voted out of office. Senegal moved toward a multiparty democracy in the 1970s. A few countries, like Ghana and Nigeria, alternated between democratically elected regimes and military governments. Tanzania and for a time, Kenya, preserved a measure of electoral choice within a one-party system.

Some governments, like that of the Côte d'Ivoire and Kenya, adopted a liberal approach to private investment and capitalism. But the functioning democracies were exceptions to the norm of one-party, autocratic rule, and even in the more capitalist oriented countries the state played a major role in the economy.

The centralization of political and economic power was justified on two principal grounds: to promote national unity and to speed rapid economic growth. The newly independent states were essentially artifacts of the colonial powers, their boundaries drawn without regard to ethnic coherence, geographical barriers, or often, economic viability. The new leaders argued that creating a sense of national unity among disparate ethnic and religious groups was an urgent necessity if their countries were to survive and that open, competitive democratic political systems would produce ethnically based political parties, sharpening national cleavages rather than building national unity. They also argued that rapid economic development was inconsistent with the debates, discussions, and delays typical of democratic political systems. Concentrating economic power in the hands of the state would provide for more rapid and efficient economic progress.

The concentration of economic power in the hands of the state became increasingly apparent by the 1980s. More often than not, it resulted in economic policies based on political considerations rather than economic efficiency and led to economic stagnation or decline. With worsening economic conditions, governments turned to the international financial institutions and to developed country governments for debt relief and additional assistance. From the beginning of the 1980s, a growing proportion of that assistance was conditioned on the adoption or economic reform programs by African governments.

As economic reforms became an issue of high politics, four clusters of actors played a role in influencing the timing, content, implementation and maintenance of reform programs: (1) African governments; (2) nongovernmental organizations and publics in African countries; (3) the major international financial institutions supporting and financing reform programs; and (4) the governments, non-governmental organizations (including commercial banks with loans outstanding in reforming countries), and the publics of developed countries.

African Governments

The principal players in the politics of reform in Africa have been the political leadership and government bureaucracies. Decisions on the adoption of reform programs have typically been made by the president, in consultation with his economic team, usually including the minister of finance, the governor of the central bank, occasionally ministers of planning and the economy, and any economic advisers to the president. This team, whose members are typically among those officials most supportive of economic reform programs, has typically been made up of economists educated in major Western universities, many of whom have also worked in one of the international financial institutions. They have tended to share a technical background that permits them to participate fully in economic policy analyses and dialogues with officials from international and bilateral aid agencies. In addition, the bureaucratic interests of economic ministries, especially the ministry of finance, tend to reinforce the support by senior officials of these ministries for economic reform programs. Such programs typically include loans or aid grants channeled through their ministries, enhancing their clout with the spending ministries. However, the support for economic reforms, even in finance ministries, has often been weak below the level of senior officials.

The interests of the spending ministries and state-owned enterprises (SOEs) have frequently been directly threatened by economic reform programs. Stabilization programs requiring reductions in government expenditures can involve a contraction in responsibilities and employment in these agencies or, in the case of SOEs, their liquidation or sale to the private sector. Reductions in government controls over economic activity (e.g., licenses to trade or invest, distribution of scarce foreign exchange, allocation of low interest loans) have also limited the abilities of public officials, including those in economic ministries, to claim economic rents or to lubricate their own patronage networks, often resulting in resistance on their part to reforms. The weak capacity of African governments has presented further obstacles to effective implementation of reform programs. Below the level of minister or permanent secretary, African officials are often poorly trained, poorly motivated, and poorly organized. Even where the senior ranks of a ministry is committed to reforms, it may prove challenging to the staff of that ministry to implement technically and administratively complex reform programs. This can be a particular problem with reforms involving institutional changes, for example, banking reform, educational reform, or the reorganization or privatization of SOEs.

The military has also been an important player in national politics in much of Africa. it has seized power in countries where existing governments have appeared inept, where public disorder was widespread or threatened, where corruption was rampant, or where public discontent was broad. They have also seized power because sitting governments were weak or unpopular, as a means of advancing their personal ambitions, or as a consequence of intra-military rivalries, citing the above problems as rationales.[5] Threats to their status, power, or economic position have on occasion provoked military intervention, for example, in Togo (1963), Ghana (1966), and possibly Burundi (1990). In the latter case, the military reportedly seized power in reaction to an economic reform program involving forced retirement of a number of military officers. The widespread tendency on the part of African militaries to intervene in politics has made them players in the reform game whether they are active participants in government or not. Governments, military or civilian, may evaluate policy choices in part on whether those choices are likely to produce military intervention, either indirectly through provoking civil unrest or directly by attacking the interests of the military.

Another player in the politics of reform in a number of African countries has been the ruling political party. In those African countries, like Tanzania, where entrenched ruling parties have had a strong socialist orientation and where policy changes threaten the power or doctrines of those parties, resistance to change by party leaders can at times be strong and effective. In the many African countries espousing one form or another of socialism over the first two decades of independence, socialist-oriented values—specifically, an emphasis on equity and the leading role of the state in the economy—appear still to be widely shared by not only party officials but also government officials, intellectuals, and the informed public. These beliefs, even when not openly expressed, can feed a skepticism and even resistance to economic reforms, a quickness to criticize their fairness or effectiveness, and a willingness to embrace a return to socialist-state-oriented policies.

Nongovernmental Actors in Sub-Saharan Africa

In Africa ethnic and regional cleavages have played a role in the politics of reform. Where the ethnic groups likely to benefit from reforms are potentially powerful politically or economically, governments have resisted those reforms. The ethnic dimensions of economic reforms have been particularly important in East and Southern Africa, where fear of the economic power of Asians resident in those countries has contributed to a reluctance on the part of governments to implement reforms likely to benefit Asians, for example, decontrol of domestic grain marketing. There have been similar fears of the Lebanese in parts of West Africa, and it may be only a matter of time before indigenous ethnic groups, for example, the Chaggas in Tanzania or the Bamileke in Cameroon, begin to profit from new economic opportunities and so provoke similar fears.

Another occasional actor in the politics of reform has been the media. In most African countries until recently, the media have been controlled by government and so have been prevented from debating or attacking economic reform programs. Where they have not been owned or controlled by government, the media have been able to put economic policy issues on the national agenda, inform (and, occasionally, misinform) the public about their provisions and likely consequences, provoke public debate and stimulate political action. The best known example of economic reforms being debated in the media has been in Nigeria, where the press took part in a lively national debate in 1985 on whether the country should adopt an IMF stabilization program.

Other actors within African countries have included economic interest groups, civic and professional associations, and other nongovernmental organizations. These organizations have tended to be weak politically. Unions and professional associations have typically been incorporated into the ruling party, retaining little independence. Business groups, often organized in Chambers of Commerce or Patronats, have also lacked political influence, reflecting the limited number of private manufacturing or service concerns in the formal sector in most African countries. Finally, and perhaps most importantly, the mass of Africa's small farmers who are most likely to benefit from reforms, have rarely been organized or able to exert direct influence over government policies. Commercial farmers or planteurs, for example, in Kenya or the Côte d'Ivoire, though not always organized in formal associations, have played a role in influencing agricultural policies and, at times, effectively resisted economic reform programs threatening their interests.

These diverse public and private institutions, associations, and groups will react to reforms in different ways, generally in response to how the specific reform is perceived as affecting their interests. Thus, spending ministries sensing that a reform program will result in a contraction in their budget, responsibilities, or staff size will likely oppose such a reform and may sabotage its implementation. The military or segments of the military are likely to attempt to protect its corporate interests in the face of reforms seen as threatening those interests. Civil servants may be expected to oppose reforms involving a reduction in their wages or size of employment. Unions will likely resist reductions in the wages or employment of their members. Businessmen or farmers benefiting from government protection or subsidies may oppose reforms which threaten to remove that protection or those subsidies. Similarly, those benefiting from reforms will likely support those reforms. However, whether groups act to oppose or support reforms and what tools they employ to express their views—silent resistance, public speeches and lobbying where that is possible, strikes or demonstrations, votes in elections—will vary according to the political structure of the country, the degree of organization and coherence of the groups and their understanding and interpretation of the reforms (which come usually in packages, often with both positive and negative impacts on particular groups) and the political environment in which the reforms are adopted. A military which has just withdrawn from governing, for example, may be more reluctant actively to resist reforms involving cuts in military expenditures than one which has spent several years in the barracks and is eager to reenter the political arena. Civil servants may be more willing to demonstrate public against reforms cutting their salaries where those salaries have been declining over a period of years. They may be unwilling to demonstrate against a devaluation, even where a devaluation threatens to reduce their real income, if the impact of the devaluation is perceived to be small and slow to take effect.

The IFIs

The International Monetary Fund and the World Bank have acted as the lead external agencies in promoting stabilization and structural adjustment in Africa. The reasons for their prominence are several. They have the staff numbers and capacity to assess the condition of member states' economies and to recommend needed policy changes. They have large amounts of resources they can loan, providing a potential source of leverage on African governments desperate for foreign exchange. Finally, they have had the support of developed country governments in taking the lead in promoting economic reforms.

Analysts of the politics of reform in Africa and elsewhere have emphasized two different means by which these institutions have promoted economic reforms. One is through bargaining—in effect by "buying" a degree of policy reform through conditioned lending.[6] Another view is that these institutions have influenced reforming governments primarily through their abilities to persuade or to promote "social learning" regarding the efficacy of reforms on the part of government officials.[7]

However, the power of these institutions to persuade or pressure African governments to adopt reform programs has never been absolute. First of all, there are bureaucratic imperatives within international aid agencies to lend or grant the maximum amount of assistance possible and discourage the cancellation of lending programs where borrowing governments fail to implement agreed reforms.[8] Careers are usually made on providing the aid, not on withholding it. And where aid institutions fail fully to commit their resources, the question inevitably arises as to whether they have not been provided with more resources than they really need. Where the answer to that question is yes, resources provided to these institutions in subsequent years may well fall. There are few institutions, governmental or international, which welcome a fall in the quantity of resources they have at their disposal. Thus the institutional and personal pressures on aid staff can reduce their incentives to press borrowers hard to adopt difficult reform conditions or to reduce their lending when promised reforms are not carried through.

Another aspect of the IFIs in Africa that has on occasion affected their influence over economic reforms has been the different missions of the IMF and the IBRD. The Fund has traditionally emphasized closing the gap in the balance of payments, while the Bank has emphasized long term development. The policy reforms advocated by these institutions have at times been somewhat different and even in conflict. Disunity between these institutions has on occasion provided African officials with opportunities to play off one institution against the other, reducing the pressures on them to adopt specific reform programs. However, the IFIs have attempted to avoid policy disagreements among themselves and appear generally to have succeeded.

More important than the capacities or the resources of the IFIs has been the fact that their developed country members have wanted them to act as the spearheads of reform. Developed country governments have made an IMF stabilization program a precondition for debt reschedulings or cancellations and often for additional economic assistance or even the maintenance of existing levels of assistance. However, developed country governments have also pursued and protected other national interests (principally political and commercial) in individual African countries. African politicians have at times effectively used their leverage with those governments to persuade them to intervene with the Fund or the Bank to eliminate specific reform programs or to avoid terminating external financing where reforms have been implemented only partially or reversed.

Developed Countries

Developed country governments have played an important role in supporting economic reform abroad by conditioning their aid or debt relief on the existence of stabilization or adjustment programs with the IFIs. However, these governments have seldom constituted a monolithic bloc. Where a developed country government has had strong economic or political interests in good relations with a particular foreign government, the former has at times been willing to continue external financing programs even when reform programs were not implemented or maintained. Within the same developed country government, there has also at times been division on particular reform programs. Typically, ministries of finance and treasuries have tended to take hard lines on the need for reform and for the servicing of foreign debts. Aid agencies have usually supported reforms but have proven more flexible on the shape and timing of reform programs than finance ministries. Foreign affairs departments, where political interests receive the most attention, have at times put those interests above the necessity of pushing on economic reforms. Trade ministries and export credit agencies have often wanted to protect the commercial interests of home companies in the face of reforms that threaten those interests.

A further dimension of the politics of economic reform has involved domestic groups in developed countries. Nongovernmental organizations and other poverty-focused groups in the United States and several Western countries have been critical of structural adjustment in developing countries, fearing that those programs are making the poor yet poorer and causing widespread suffering. The criticisms of such organizations, echoed at times by sympathetic legislators, have focused the attention of the development community on the impact of economic reforms on the poor.

Conclusions

What concluding observations can be made on the politics of reform in Africa on the basis of the patterns of African politics described above? First, African politicians, government officials, and members of the informed public are more accepting of the need for economic reforms today than in the early decades of independence. However, this acceptance appears to be based on a recognition that many past policies have failed and need to be changed rather than on a consensus on the nature of individual reforms or on a need to reduce the role of the state in the economy and a belief in the efficacy of the private sector. In contrast to other parts of the developing world, there is as yet no definitive structural adjustment success on the African mainland to convince the many skeptics that the reforms can work as they are supposed to.

The proreform constituencies in Africa tend to be weak in political influence. The principal beneficiaries—agricultural producers—remain typically dispersed and unorganized. The commercial interests benefiting from reform (i.e., those efficient enough to compete in relatively free markets) remain limited in number and are likely to remain so until reform programs stimulate new investment. Those groups likely to oppose reforms, on the other hand, are often influential with African governments and include elites inside and outside government dependent on state resources—jobs, contracts, economic rents, and services—as well as larger agricultural and commercial interests benefiting from existing policies, for example, protection from import or domestic competition, subsidies, and government services.

With the widespread skepticism about the efficacy or justice of reform programs and the weak proreform and strong antireform constituencies in many African countries, it must be asked why any significant reform policies have been implemented at all in the region. The answer involves the influence of external aid agencies and the heavy dependence of many African governments on external financing. The role of these agencies has been critical in decisions on the timing, scope, and pace of reform programs and in their implementation and maintenance.

These general observations are merely a starting point for understanding the politics of reform in individual African countries. Political conditions in each country will be different, as will the contextual factors affecting the adoption, implementation, and maintenance of reforms. An understanding of the ways these factors interact in concrete cases can provide insights and guidance for improving the effectiveness of external agencies in supporting reform in Africa. For example, how important a role have ideas played in the initiation, implementation, and maintenance of reforms in Africa? Can support for reforms be significantly expanded through more public education and training programs for government officials? Are there any signs that the beneficiaries of reform programs are growing in political strength? What can be done to strengthen their influence with decision makers? Are there key interest groups or patronage networks in African societies whose resistance to reforms can be decisive in preventing the implementation of specific reform measures?

How can that resistance be overcome? Are there countries in which groups opposed to reforms are so powerful or governments so inept that efforts to promote economic reform programs are a waste of time?

How much difference have contextual factors made in the case studies of reform in Africa? Have economic reforms been easier or more difficult to implement and sustain in democratic Gambia versus autocratic Ghana? What difference did the approach of an election make in the economic reform program in The Gambia? To what extent is reform fatigue a problem in places like Ghana, where reform programs have been underway for nearly a decade? Have constituencies opposed to reform grown so powerful that government finds reforms increasingly difficult to implement? What difference has the type of reform made to its adoption and implementation? It is to the case studies we now turn for insights into these and other questions.

Notes

1. It is recognized that these decisions may be taken by public officials at various levels of government. The focus here is on presidents and ministerial level officials who play a particularly important role in the adoption and implementation of economic reforms since many of these reforms remain issues of "high politics." However, lower level government officials also have a role in the implementation and maintenance of reforms and are affected by many of the same factors that impinge on economic policy choices of more senior officials.

2. For a summary of this literature, see Joan Nelson, editor, *Economic Crisis and Policy Choice*, Princeton, 1990, pp. 22 ff and pp. 327 ff.

3. For an elaboration of this system and its various manifestations, see Carl Rosberg and Robert Jackson, *Personal Rule in Black Africa*, Berkeley, University of California press, 1982.

4. They were not always entirely transparent to African rulers either. A prominent American diplomat has recounted the story of pressing President Mobutu to stop one of his generals from stealing funds intended to pay Zairoise troops during the Shaba crisis. At the third demarche on this issue, Mobutu is reported to have said that he was well aware of the diversion of funds by one of his generals, but he was unwilling to intervene until he knew how the general was using the funds, and specifically, whom he was paying off.

5. For a persuasive case that many coups are the results of personal ambitions of individual officers, corporate or ethnic competition within the military, or other conflicts quite distinct from the reasons usually given for coups, see Samuel Decalo, *Coups and Army Rule in Africa*, New Haven, Yale, 1990.

6. This argument is elaborated in Paul Mosley, *et.al.*, *op.cit.*.

7. See Miles Kahler, "Orthodoxy and Its Alternatives" in Joan Nelson, *op.cit.*, pp. 33-63.

8. The IMF is not primarily an aid agency (though it is now in the concessional assistance business with the establishment of SAF and ESAF). The Fund does not appear to be subject to the same bureaucratic imperatives as the Bank and other aid agencies involving levels of lending.

Part II.

Case Studies in the Politics of African Economic Reform

Chapter 3
An Introduction to the Case Studies

Carol Lancaster

This section contains case studies of the politics of economic reform in five individual African countries. These studies cover the adoption, implementation, and in one case, reversal, of packages of reforms over discrete periods of time. They provide a useful set of insights on the politics of reform, some offering the same insights from case to case and some particular to the individual case. What follows here is a brief summary of each of the cases, including a chronology of the adoption and implementation of reform, the political factors influencing the initiation of reforms, the content and pace of reform programs, the maintenance or rejection of reforms over time, the politics of managing the presentation and implementation of reform programs to the publics in reforming countries, and the issues of governance raised by the process of reform. The chart below provides basic economic and political information on each of the countries examined here.

Country	The Gambia	Ghana	Kenya	Mali	Zambia
Population (World Bank 1989 est.)	849,000	14.4 million	23.5 million	8.2 million	7.8 million
GNP Per Capita (World Bank FY 89 est.)	$240	$390	$360	$270	$390
Aid % of GNP (1989)	20%	10.3%	11.7%	22.6%	8.3%
Imports % of GNP (1989)	55%	27.3%	36.6%	34.6%	31.5%
Avg. Annual Growth (1980-1989)	4.6% (FY 89 est.)	2.8%	4.1%	3.8%	0.8%
Major Exports	Groundnuts Cotton	Cocoa Gold	Coffee Petro-products	Cotton	Cooper, Cobalt, Zinc
Political System	Democracy	Military	One-Party State	Transitional	Multiparty

Sources: World Bank, CIA Factbook.

The Gambia

The government of The Gambia initiated its Economic Reform Program in 1985. Previous to that time the government had followed expansionary monetary and fiscal policies, engaged in extensive foreign borrowing to fill budgetary and balance of payments gaps, imposed economic controls, including pricing policies, which discouraged production and investment, and turned a blind eye to extensive corruption, particularly in the customs service. These policies eventually led to declining exports, a shrinkage in government revenues, and economic stagnation.

The gaps in the budget and balance of payments were unsustainable. The government sought to fill those gaps in 1984 through convincing external aid agencies to provide massive increases in the levels of their assistance. Foreign aid had risen dramatically in the early 1980s in the wake of a failed military coup which nearly put an end to one of Africa's few functioning democracies, and this rise may have fed Gambian hopes of further increases in aid. Aid donors, however, refused to increase their aid to The Gambia until the government undertook to initiate serious economic reforms.

In 1985 an able and honest Minister of Finance, with the backing of the president of The Gambia, presented a comprehensive Economic Reform Program (ERP). The ERP, developed by a team of Gambian officials drawn from various economic ministries, included a broad set of policy changes: exchange rate reform, the promotion of agriculture, the promotion of other productive sectors, civil service and SOE reform, fiscal and monetary reform, and reorientation of the public investment program.

The reforms were opposed by many ministers, officials of the SOEs, and others unconvinced of the need for reform or whose interests were threatened by the reforms. The president was supportive but took pains to distance himself from the implementation of exchange rate devaluation, a key element in the reform package.

The reforms were implemented over a period of several years and were accompanied by a rapid improvement in economic conditions. Growth increased sharply, government revenues rose, in part a result of reduced customs fraud, and foreign aid flows increased. The turn around in the economic situation permitted the Minister of Finance to reduce import taxes—a positive manifestation of the success of the reform. It also helped the government win reelection in 1987 with an increased majority.

However, with an easing of economic conditions in the Gambia and the death of the Minister of Finance, the maintenance of reform programs began to slip. Customs fraud increased once again, the Central Bank began to act to prop up the value of the Gambian currency, and government resisted implementing further reforms, in particular, one involving the reorganization of the Gambian Commercial and Development Bank. It was pressure and threats from external aid agencies that their aid would be cut back that forced government to maintain the currency at an equilibrium level and implement bank reforms. By 1990—the end of the period of the case study—customs fraud was still a problem, and budgetary discipline was eroding.

Ghana

Ghana suffered from a sustained economic decline since the 1960s as successive governments attempted to foster rapid growth through extensive state intervention in the economy or implemented partial reforms that failed to reverse the economic slide. Among the major domestic policy failures were a highly overvalued currency, bloated government, and excessive taxation of cocoa exports, the principal source of foreign exchange for the country. Per capita economic growth remained negative over an extended period, the real value of exports dropped by more than half, and a thriving black market appeared, including in foreign exchange. A democratically elected government in 1979 proved unable to deal with the deepening economic problems and was overthrown in 1981 by Flight Lieutenant Jerry Rawlings.

Rawlings inherited an economy in desperate straits. Initially, the regime espoused a set of economic policies involving the tightening of state controls on the economy. There would be no devaluation; a state monopoly on exports and imports would be created; price controls on food and other goods would be implemented and enforced; trade would be reoriented away from the West. The Rawlings regime appealed to the Soviet Union and Eastern Europe for financial help.

The Soviets and Eastern Europeans turned down the Ghanaian request for aid, suggesting that the Ghanaian government might wish to negotiate a stabilization program with the IMF. The economy continued to sink; a drought further depressed agricultural production and one million Ghanaians, expelled from Nigeria, returned home to look for jobs. The economy was in a state of collapse. In 1983 the Ghanaian government implemented an Economic Recovery Program, devaluing the currency, raising prices on basic staples and instituting a number of other reforms in what became one of the earliest, broadest, and most sustained reform programs in Africa.

The turnaround in economic policy can be explained by the severity of Ghana's economic problems (and so the readiness of Ghanaians to accept reforms) and the political skills of the president and his minister of finance in negotiating reforms with external aid agencies and implementing them at home. Although the regime had a measure of legitimacy when it seized power based on the fight against corruption in an earlier Rawlings regime, its active supporters among the population were limited to students, some workers groups, and the military itself. The support it had initially began to erode with the implementation of reforms. But the regime was willing to use force to pursue its policies, and a frightened populace felt it had little choice but to acquiesce.

The IMF and World Bank played a major role in the initiation and maintenance of reforms in Ghana. The stabilization and adjustment programs supported by these institutions corresponded to those recommended by a number of Ghanaian economists and former officials but had in the past been ignored by the government. The IFIs, in effect, strengthened the hand of reformers within the government of Ghana and others advising it. And the large influx of external financing in support of reform programs provided the government with immediate and tangible benefits to point to as a consequence of reforms.

The politics of exchange rate reform in Ghana were sophisticated. Many Ghanaians believed, based on past experience, that devaluation would provoke serious political instabilities and even another military coup. The overvalued cedi also provided benefits to those, often influential individuals, able to obtain foreign exchange at the official rate. Those government officials and others were opposed to a devaluation. Many Ghanaians opposed a devaluation on the basis of a fear that devaluation would increase inflation and further lower their standard of living.

The government approached the issue of devaluation by first raising the prices of imported foods, imposing surcharges on other imports, and offering subsidies for exports—in effect, partially devaluing the currency without altering its official rate of exchange. Soon thereafter, the regime implemented a series of small devaluations. In the face of rising criticism of these devaluations, the regime moved to a foreign exchange auction system—devaluation by another name but not as politically controversial as outright currency realignment. These various approaches to devaluation, in fact, resulted in a substantial drop in the value of the cedi vis-à-vis the rest of the world's currencies. But they avoided the domestic political problems anticipated to arise from an outright devaluation.

Privatizing or streamlining state owned enterprises has been another important element in Ghana's reform program. Progress on this set of reforms has been slow. The Provisional National Defense Council (PNDC) that rules Ghana has been unwilling to devolve political authority and decisionmaking to those parts of government responsible for reforming or selling off state-owned enterprises. The PNDC is also unclear on the role it wishes the state to play in the economy. Technical aspects of privatizing are an additional challenge to a government, like many in Africa, short on administrative and analytical capacity. Relatively little progress has been made on privatization as a result of these problems.

Banking reform is a critical element in the success of the overall adjustment program in Ghana, given the importance of credit for expanding production and investment. Reform in this area, however, is only just beginning. There is considerable uncertainty on what sorts of reforms are needed, not only among Ghanaians but also among international aid agencies. Like privatization, banking reform requires considerable local administrative and technical capacity, which are in short supply in the government. Banking reform has proceeded slowly as a consequence.

Kenya

The economic performance of Kenya has been comparatively good over most of the period since independence in 1963. The political strength of powerful rural interests (a legacy of settler colonialism) acted as a counterweight to the interests of import-substituting industries and led to a set of government economic policies that avoided the excessive taxation of agriculture and the strong urban biases typical of much of the rest of Africa. And until the mid-1970s the government of Kenya also tended to pursue conservative fiscal and monetary policies. However, the oil shocks of the 1970s, the booms in coffee and tea during the same decade, substantial foreign borrowing, and an expansion of the state sector eventually produced a decline in the productivity of investment, a slowing down of employment creation in the formal private sector, a growing budgetary deficit, and an increasing gap in the balance of payments. Added to these problems was an increase in corruption.

The 1979 oil price increase and the collapse in the coffee boom produced a serious balance of payments problem and forced the government of Kenya to seek help from the IMF. In the past relations with the Fund had been poor, with the Kenyans seeking help from the IMF in times of a balance-of-payments crisis only to fail to fulfill their commitments to policy reforms as soon as the crisis abated. The politics of this cycle was that a balance-of-payments crisis resulted in an increased reliance by the political leadership on technocrats in the ministry of finance and the central bank who were favorable towards stabilization policies. But as soon as the crisis abated, influence over economic policy shifted back to the spending ministries. As a result of past disappointments with its stabilization programs in Kenya, the IMF sought to impose stricter conditions on its program in 1979. Negotiations proved difficult and protracted, and the Kenyans turned to the World Bank for additional aid to meet the financing shortfall. The Bank, which had good relations with the government, obliged and converted an industrial sector loan into a structural adjustment loan. This was one of the rare instances where a Bank SAL preceded a stabilization program with the IMF. The Fund and the Kenyans signed a stabilization agreement shortly thereafter.

The SAL and stabilization agreements failed to halt the economic deterioration in Kenya, in part because implementation of the agreements on the part of the Kenyans proved weak. As the economic crisis worsened, the influence of the technocrats increased, a new agreement with the IMF was negotiated, and the government moved more decisively to stabilize the economy, including a devaluation of the Kenyan shilling. With relations between the Kenyan government and the IMF improving, the World Bank negotiated a second SAL containing a set of highly ambitious policy reforms involving import liberalization, export promotion, and privatization and market decontrol of agriculture. However, the decontrol of maize marketing and import liberalization proved to be politically difficult with uncertainty in the Kenyan government over the efficacy of these reforms, with opposition from manufacturers who would lose protection if imports were liberalized, and with opposition from the National Cereals and Produce Board (supported by large farmers benefitting from controls on domestic maize trade). The opponents argued that decontrolling maize would threaten the government's ability to ensure food security and enhance the position of Asian businessmen, who would likely take advantage of opportunities to engage in the purchase and sale of maize—and possibly corner the market. Despite the disbursement of several tranches of the World Bank SAL based on repeated promises to implement reforms, the government failed to do so, leading to a deterioration in relationships with the Bank and with USAID, which supported the reforms in the SAL.

A second phase of reform in Kenya began in 1985 when three particularly capable senior economic officials wrote and published an assessment of the problems of the Kenyan economy and solutions to those problems, arguing that the private sector should have the predominant role as an engine of economic growth and exports would be important to that growth. This document, published by government and ideologically in tune with the attitudes of the IFIs, was intended as a basis of future reform programs in Kenya and to strengthen the hands of those in government promoting reforms. In 1986 a small coffee boom produced an expansionary government fiscal policy and resulted in a return to the IMF for a stabilization program. The Kenyans also made progress during this time on trade liberalization, price decontrol, and financial market deepening. The more politically controversial reforms, such as decontrol of domestic food marketing and public sector restructuring, did not, however, show much progress. The slowness of progress on these reforms, despite pressures from external donors, reflected the lack of consensus within government on their efficacy, a fear of political backlash, and a fear of increasing the economic opportunities and power of the Asians and Kikuyus (the largest African ethnic group).

Mali

Mali is in the midst of a rapid political transformation in which multiparty democracy has replaced the one-party government of its former leader, General Moussa Traoré, who was overthrown following massive public demonstrations early in 1991. Many Malians blame their country's economic development failure on alleged corruption by the former president and his entourage. The popular expectation is that democratic institutions and an untainted, technocratic administration will enable the country to recover rapidly from its economic doldrums and achieve significant growth, thus providing better living conditions for all Malians.

However, the former government was already cooperating with foreign donors, including the international financial institutions, to carry out structural adjustment and economic policy reforms. Moreover, the country suffers from underlying geographical and social constraints to economic development. A large, sprawling, sparsely settled, landlocked territory, Mali suffers from an arid, drought-prone climate that makes agriculture difficult, but a dearth of mineral resources leaves few alternatives to farming and livestock herding as productive occupations for a population of 8.5 million—largely illiterate, debilitated by tropical diseases, malnourished, and growing at 2.7 percent per year despite a very high infant mortality rate.

These factors, plus constraints on development of the private sector, have proved difficult to overcome. Mali's postindependence economic history can be divided into two phases: (1) doctrinaire Marxism under Mali's first president, Modibo Keïta, who greatly expanded the state's role in the economy (already large under French colonial rule), and (2) cautious pragmatism under Moussa Traoré, who at first continued Keïta's policies, then tried home-grown structural adjustment measures, and finally yielded control of economic policy to the IMF, the World Bank, and other donors. A third phase, during which democratically elected leaders and Western-oriented technocrats implement free market reforms more vigorously than in the past, may be about to get under way.

The main elements of Mali's structural adjustment effort have included decontrol of the economy, banking sector reform, and budget-balancing measures. A key element of the program has been the reorganization, sale, or liquidation of state-owned firms, including banks.

Economic conditions were very much a cause of Moussa Traorés unpopularity, which led to his overthrow. Certainly, widespread anger over corruption and ostentatious living by high officials, at a time when most people were suffering austerity, was a factor with both political and economic implications. Likewise, political events in other parts of the world, notably in Eastern Europe and the Soviet Union, had economic roots and policy implications for Mali that were not lost on educated Malians who figured in the forefront of efforts to oust the Traoré regime.

On balance, it appears that most members of the Malian elite support structural adjustment and certainly favor economic liberalization, so long as the social costs to those disadvantaged in the process are somehow ameliorated. (Many of the sufferers are former state enterprise or government employees, whose political influence remains substantial.) On the other hand, if Malians become disappointed in their expectations of economic improvement, in time they may conclude that democratic institutions have failed them. Should that happen, the outlook for both political stability and economic development in Mali is likely to be adverse.

Zambia

The economy of Zambia is essentially a copper economy, with over 90 percent of its export earnings derived from that sole export. Briefly during the 1970s, copper prices surged and then fell, prompting the government first to spend heavily and then to borrow heavily to cover widening balance-of-payments deficits. At the same time copper reserves were running out, becoming ever more costly to mine. By the end of the 1970s the government was forced to negotiate a stabilization agreement with the IMF, which it implemented relatively successfully. However, a rise in copper prices in the early 1980s led to a surge in government expenditures and, after copper prices sank once again, another crisis in the balance of payments. Once again, agreements with the IMF were negotiated, but only partly implemented and the economy continued to slide. In 1985 the government agreed to a comprehensive package of stabilization and adjustment reforms. In the end, however, the government failed to implement some of the reforms or to maintain those that were implemented. By 1987, after bloody riots against the removal of subsidies on basic foodstuffs, the government jettisoned the reform programs altogether.

One of the essential elements in the reform program was a devaluation of the kwacha. The government decided to devalue the kwacha through a periodic auction of foreign exchange. During the first three auctions, the value of the kwacha dropped dramatically, in part a consequence of a rapid expansion of the money supply. The drop in the kwacha's value coincided with increases in interest rates, petroleum prices and maize meal prices. The general public wrongly blamed the general rise in prices, on the auction, and pressures rose to reverse the kwacha's decline. Politicians opposed to reform (whose interests were frequently damaged by reforms) also blamed the auction for the country's increasing economic woes. Meanwhile, trade liberalization produced an inflow of luxury goods into Zambia, suggesting to a discontented populace that a few were gaining unfairly from the auction while many were losing. And to further complicate matters, the donors who favored the auction failed to disburse the quantity of aid they had promised to support the auction. In 1986 the president responded to growing criticism of his economic reforms by firing the technocrats operating the auction and appointed political party stalwarts in their stead—a group most opposed to economic policy reforms and unfamiliar with the workings of free market systems. The new economic team soon began to manipulate the auction to increase the value of the kwacha, undermining the goal of the auction process. The auction was finally suspended in 1987.

Agricultural reforms met a similar end. A key element in agriculture reform was the removal of subsidies on fertilizer and on maize meal—basic staples of Zambian farmers and miners. Maize meal prices were increased by 50 percent in 1986, and fertilizer prices were also increased as subsidies were reduced. The government also permitted the private sector to participate in maize marketing. These changes were not well coordinated and produced a set of prices, costs, and incentives which were inconsistent and produced negative economic repercussions. Further reductions in maize subsidies were delayed because of debates within the Central Committee of the ruling party and because of other regulations which had to be fulfilled. They were then implemented clumsily and coincided with a fuel shortage and other distributional problems, further raising maize prices because of the inability of farmers to get their maize to market. Food riots erupted on the copper belt in which 15 people were killed, and the president reversed the price increases. The experiment in economic reform in Zambia was over for the moment.

Some Basic Facts About The Gambia

Present Official Name: Republic of The Gambia

Year of Independence: 1965

Pre-Independence Status: British colony

The Government

Capital City: Banjul
Head of State: President, Sir Dawda Kairaba Jawara
Head of Government: President, Sir Dawda Kairaba Jawara
How/When Present Government Came to Power: Pre-independence elections
Number of Officially Permitted Political Parties: 6 are active, but there is no limit.

The People

Population: 849,000 (World Bank estimate for mid-1989)
Average Annual Population Growth (%): 3.1% (CIA World Factbook estimate for 1990)
Major Languages: English (official), Mandinka, Wolof, Fula
Religions: Muslim (85%), Christian (14%), traditional belief systems (1%)
Number of Universities: 0

Some Economic Data

Area: 4,361 sq. miles (11,295 sq. km)
GDP ($): $195 million (CIA World Factbook for FY 1989)
GNP per capita ($): $240 (World Bank estimate for 1989)
Major Seaports: Banjul, Kuntaur
Major Exports: Groundnuts and groundnut products, cotton, fish and fish preparations, hides and skins
Other Present or Potential Sources of Income: tourism, transport, trade finance
Major Imports: Food and live animals, basic manufactured goods, machinery and transport equipment, mineral fuels, and lubricants
Major Trading Partners in Descending Order of Importance (1989):
Imports: UK, West Germany, France, China
Exports: Japan,Belgium/Luxembourg, Guinea, Hong Kong
Total External Debt ($): $330 million (CIA World Factbook estimate for 1989)
Debt Service Ratio (Total Debt Service as % of Exports of Goods and Services): 49%
Monetary Unit: **dalasi**

Armed Forces

Size/Breakdown: Active 900, paramilitary 600+ (IISS estimate for 1991)
Annual defense expenditure ($): $3 million (1988)

Chapter 4
The Politics of Economic Reform in The Gambia

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Introduction

In June 1985 The Gambia introduced its Economic Recovery Program (ERP), which was a four-year initiative designed to reverse the economy's decline and lay the foundations for sustainable economic growth. Within a year the Gambian economy had begun a dramatic recovery, and for the three years 1986 to 1989 economic growth exceeded 5 percent per annum.

The rapid recovery of the economy resulted from the policy changes and technical assistance supplied by the donor community. Once underway, however, the recovery was sustained by generous balance of payments support (GOTG 1987; McPherson and Radelet 1989; and Radelet 1990).

Because of the country's small size, The Gambia's experience is often treated as a special case. There are useful lessons for other countries in sub-Saharan Africa in the process of structural adjustment. Several aspects of the ERP, such as the exchange rate reform, financial liberalization, parastatal reform, and tax reform, had far-reaching effects. The ERP was also implemented without social dislocation (Radelet 1990). Indeed, the general elections of March 1987 led to an increase in the Parliamentary majority of the governing party.

Notwithstanding the improvements which have occurred, the basic institutional and attitudinal changes needed to support sustained development have been slow to emerge. Indeed, The Gambia's experience demonstrates the importance of clearly distinguishing between *adjustment* and *reform*.[1] Since the introduction of the ERP a large amount of adjustment has occurred; by contrast, there has been little in the way of reform. Most of the policy changes have been in response to external pressure rather than from changes in the behavior and attitudes of Gambian politicians, senior civil servants, or managers of public enterprises. Unless attitudes and behavior change, the gains made under the ERP will be transitory.

This essay examines how political factors have influenced The Gambia's economic recovery. It identifies why some policies were adopted and implemented, why others were not, and what difficulties exist in moving beyond stabilization and adjustment to economic reform.

Section 2 reviews the historical background to the ERP. Section 3 examines why the ERP succeeded. Section 4 discusses how the reform process might be sustained. Section 5 contains concluding observations.

Historical Perspective

International circumstances weigh heavily on the politics of economic reform in sub-Saharan Africa (SSA). There are several reasons. Many countries in SSA are critically dependent on foreign aid; most of the skills needed to manage, plan, or regulate the economies are imported (either because foreigners are hired or locals are trained abroad); and the primary source of development ideology is external. Moreover, the economic retrogression throughout SSA over the last 15 years has increased the degree to which most countries depend on external technical and financial support. Many governments have lost control of economic policy. Their decisions about future policy directions are overshadowed, and even predetermined, by the deliberations of creditor and aid consortia based in Washington, Paris, London, and Brussels.[2]

The International Context of Economic Reform

Some of the problems being faced by countries in SSA, such as acute aid dependence and unserviceable levels of foreign debt, were influenced by the activities of the donors in the early 1970s. The responses by the donor community following the food and oil "shocks" of 1973 and 1974 were important in this regard. New development agencies were established,[3] and several new initiatives emerged.[4] A number of groups were formed to represent the developing countries in international fora.[5] Initially, these activities appeared as though they might lead to a new international economic order (NIEO). Some modest progress was made in this direction (Bhagwati 1977; Brandt 1980; Streeten 1982) but towards the end of the 1970s the process unravelled (Meier 1984:201-203).

The doubling of oil prices in 1979 and the worst recession (1979 to 1982) in the industrial countries since the Great Depression led to a shift to more conservative economic policies in the West. Support for additional aid was undermined by high inflation, unemployment, budget difficulties, and balance of payments pressures. Moreover, unlike their predecessors, the governments headed by Chancellor Kohl in West Germany, President Reagan in the United States, and Prime Minister Thatcher in the United Kingdom were distinctly unenthusiastic about reordering world trade and exchange to create a NIEO.

Governments in SSA were slow to appreciate that Western attitudes to aid and development had changed. They were distracted by the sharp increases in foreign aid from the OPEC nations, higher oil revenues for those that had it, and the availability of commercial loans at negative real interest rates for those countries which could borrow.[6] They were also convinced that their economic difficulties were only temporary. As a result, most countries in SSA, including The Gambia, chose to finance their external imbalances rather than adjust. That strategy continued even after the "debt shock" of 1982 (World Bank 1989: Table 22).

Yet, even if the various governments had appreciated the need to adjust, no general agreement existed about how it should be done. Indeed, at the end of the 1970s few people foresaw that the economic trajectories of most African economies were already unsustainable. The "Berg Report" (World Bank 1981) identified many of the difficulties facing countries in SSA and argued that improvements would not be easy. Nonetheless, it concluded that the subregion's development could be "accelerated." The Lagos Plan of Action, which was prepared by the Organisation for African Unity (OAU 1980) also highlighted the main problems.

Neither report saw continued decline as a serious possibility. It was presumed that the governments would change their economic policies and donors would provide the necessary support. As subsequent events have shown, the reverse occurred: the 1980s was a period of economic decline during which Africa's food situation initially deteriorated and the industrial base imploded. Because of economic and political pressures, the prospect of movement towards economic integration now seems more elusive than ever.[7]

Both the Berg Report and the Lagos Plan of Action gained widespread attention, but little in the way of positive action followed. Moreover, even after a decade of economic decline a consensus on feasible remedies to the problems of SSA has still not emerged. Some agreement exists—countries must adjust their policies and donors must provide more assistance. However, the World Bank and OAU have basically different approaches to structural adjustment (World Bank 1984; 1986; 1989; United Nations 1986; OAU 1989). Specific differences exist with respect to exchange rate policy, the phasing of adjustment measures, donor conditionality, the role of trade restrictions in promoting growth, the necessity of privatization and parastatal reform, and the potentially constructive functions of the public sector. To make the point that the differences are substantial, the recent OAU study was explicitly promoted as an "alternative structural adjustment program."

The disagreements over strategy and priorities within the donor community added an international dimension to the politics of economic reform. As the donors debate how best to proceed, attention is diverted from the fact that it is each country's responsibility to formulate and implement a reform program. The donors' role in this process should be to supplement rather than supplant local efforts. The debate has generated uncertainty among the donors themselves. The World Bank in particular has evident doubts about its approach to reform (World Bank 1989; Serageldin 1989; World Bank/UNDP 1989). Efforts to focus on the social costs of adjustment have added further to the ambivalence (World Bank 1989; 1990, Ch. 7).[8] The uncertainties and misgivings have reemerged as the Global Coalition for Africa, the forum through which African leaders and major donor groups were to "agree on general strategies that would then provide broad guidance for the design of individual country programs" (World Bank 1989:193-4), searches for an agenda and the donor representatives grapple with dimensions of "governance" that they feel comfortable pursuing.

Kept in perspective, the debate over strategy is illuminating for both donors and African governments alike. The misgivings created, however, have produced opportunities for opponents of economic reform to delay or side-track the reform effort.

Circumstances in The Gambia

The local setting in The Gambia was also politicized. A key element in this process was the introduction of national planning in 1974-75, when the first five-year plan (GOTG 1975) was formally adopted. The plan's strategy was for the public sector to have a dominant role in economic development.

The public sector got out of hand. Instead of providing a solid foundation for economic expansion and the improvement of social welfare, planning had the effect of politicizing most aspects of economic decision making. Public service, productive enterprise, and entrepreneurship ceased being the principal means by which individuals could achieve status, income, and wealth. It became more lucrative for individuals and firms to seek some accommodation with the government, whether through access to development projects, guarantees in support of private initiatives, explicit and implicit subsidies, or special deals. The distributive and redistributive powers of the government were captured by those with "access" or those who could provide it. In the process, influence peddling and corruption became the principal way of doing business.

The adverse economic effects of these developments became evident quickly. The Gambian economy was in serious trouble as early as 1979 (McPherson 1979; World Bank 1980) although, at that point, the economic problems could have been dealt with using the normal instruments of macroeconomic policy. A substantial reduction in the public sector deficit (to cut absorption and restore internal imbalance) combined with devaluation and the decontrol of agricultural prices (to promote exports and reduce the external imbalance) would have made a major difference in the country's subsequent prospects.

Wide-ranging deliberate measures designed to redress the economy's problems were not taken until mid-1985.[9] By that time the government had only two options. It could pursue its existing approach while the situation unravelled completely, or it could dramatically reorient its economic policies.

In the interim, the economy had been subject to a de facto Ponzi scheme of local and external borrowing. Whether by design or oversight, but without any detailed appreciation of the consequences, the government began to fund the economy's financial imbalances with debt that could only be serviced by additional borrowing. By the time this process unfolded (as grace periods on the debt expired, borrowing terms hardened, and creditors to whom The Gambia was in arrears suspended their disbursements), the country had an insupportable level of debt.

To illustrate, The Gambia's external debt, which had been low in 1974-75 (approximately 10 percent of GDP) increased from D87.4 million in mid-1979 (equivalent to $46.5 million or 21.2 perent of GDP) to D655.2 million in mid-1985 (equivalent to $207 million or 97.4 percent of GDP). Though not as large or readily measurable because of interlocking arrears with the public enterprises, the government's internal debt had a similar profile. The debt burden could not be sustained. By 1985 aggregate GDP and domestic exports were declining and customs fraud and income tax evasion had eroded the government's revenue. External debt was not being serviced and foreign arrears exceeded $95 million (equivalent to 55 percent of GDP). The government's internal operations were being funded by the central bank. The future held no promise that things would improve (World Bank 1985).

Thus, the government's policies had created a situation where it was unable to finance itself in a nondestructive manner.[10] There had been a failure of governance unprecedented in Gambian history.[11]

The government's unwillingness to respond constructively had been widely noted by independent consultants and the donor community. One group within the country, citing corruption, incompetence, and mismanagement, attempted a coup in July 1981. The rebellion was put down after Senegalese troops intervened.[12] As one of the few democracies in Africa, with an excellent human rights record and a reliable vote for moderation in international fora, the Gambia Government had support among the international community. Following the coup attempt, The Gambia received additional aid of approximately D40 million (equivalent to $16.7 million or 9.8 percent of GDP).[13]

From their reaction many senior government officials still did not appreciate the gravity of the economy's problems. The second five-year development plan (GOTG 1983) attributed the economy's problems to the attempted coup and external factors, such as drought, high oil prices, low groundnut prices, and rising international interest rates. The government's internal policies were not seen as a problem.

With the macroeconomic situation continuing to deteriorate even as the second plan was being implemented, the government did not search for or propose new policy directions. Instead, a major effort was devoted to securing more foreign aid. With the assistance of the UNDP, a mid-term review of the second plan (GOTG 1984) was undertaken. The review argued that because of the adverse external factors to which The Gambia had been subject, a large increase in foreign assistance was needed to correct the economy's problems. The aid sought was $180 million over four years. That amount represented 110 percent of estimated GDP in 1984-85 (World Bank 1985:39).

The mid-term review became the centerpiece of a special donor's conference in Banjul in November 1984. But, contrary to the government's expectations, the donor community was unimpressed. There was broad agreement that the proposals were unrealistic. The donors had no interest in continuing to finance The Gambia's internal and external imbalances.

Despite the government's discouraging response to the worsening economic situation, the president had made a useful move to improve economic management in mid-1982. He recalled the governor of the Central Bank, Sheriff Sisay, from study leave to take over as Minister of Finance and Trade. Since cabinet changes have been rare in The Gambia, that move suggested that the president, at least, had begun to understand that the country could benefit from a more constructive approach to its economic problems.

Sisay, who had been minister of finance for most of the 1960s, began the search for ways to reverse the economy's decline. It was four years, however, before evidence of progress emerged. The minister faced several challenges: the economic problems were deep-seated and pervasive; support for his efforts from his cabinet colleagues was unenthusiastic; key members of the civil service and the managers of the largest public enterprises were opposed to reform; and, because the government had allowed the economy to deteriorate so markedly, most of the business community was skeptical that the government would do anything positive to deal with the situation.[14]

Yet there were several factors in the minister's favor. First, he had the explicit support of the president. Second, Sisay was respected in the donor community. And third, because of his life-time of public service, the general public was confident that Sisay would do his utmost to turn the economy around.

Overview

In the period preceding the formulation of the ERP, the decision making processes relevant to the Gambian economy were highly politicized. Internationally, this resulted in a major increase in foreign aid, especially after the oil shock of 1973. However, as the priorities of the industrial countries shifted, the conditions under which foreign aid was made available hardened. Ultimately, the donors decided that further assistance to The Gambia would be inappropriate unless major changes were made in its economic policies.

Locally, the government's decision to introduce national planning increased the intrusiveness of the public sector in economic affairs. The process was not effectively managed; government involvement became a means of diverting national resources to selected groups rather than a means of expanding the economy's productive capacity. Despite mounting evidence that the economy had become seriously distorted, the government did not adjust its policies; rather, it redoubled its efforts to secure additional aid.

The Success of the Economic Recovery Program

The ERP was a major break with previous patterns of behavior by both the donor community and Gambian policy makers. After many years of generous support, the donors stopped their aid. For its part, the government took many of the policy decisions (notably devaluation, civil service retrenchment, price liberalization, and parastatal reform) that it had formerly resisted.

For many Gambians and foreigners alike, the success of the ERP was a surprise. By most objective criteria the economic situation was hopeless, and the government had given no hint that it was willing to take the actions needed to repair the damage. The ERP's success has been attributed to a variety of factors. From a political perspective, three elements stand out: leadership, the comprehensive nature of the ERP itself, and the role taken by the donor community.[15]

Leadership

While many factors combined to accelerate The Gambia's economic decline, the period prior to the formulation of the ERP was marked by a lack of leadership and government direction. As a republic with an executive president, all government policy is ultimately the president's responsibility. In practice, however, the president has relied on his ministers, who, through regular cabinet meetings, determine government policy. The president has rarely overturned cabinet decisions. Since the ruling People's Progressive Party has always had a large majority in parliament, the cabinet is effectively the supreme policy making body.[16]

In the area of economic policy, the president has depended on his finance and planning ministers to provide the necessary direction. That strategy will work, however, only if the relevant ministers are competent, courageous, and honest.

The lack of leadership on economic policy was typified by the inaction which brought the country to the verge of ruin. Though many examples exist, the external debt problem noted earlier is characteristic. Since all commitments by the government to borrow are approved by Cabinet, the explosive growth of external public sector borrowing (of 345 percent from mid-1979 to mid-1985) together with the accumulation of almost $100 million in external arrears indicates that no one had exercised any restraint in this area.[17] The effects of the debt have been devastating. It will take until the middle of the next century for The Gambia fully to service the loans which have been taken out since 1986 simply to remain current with scheduled debt service and to rationalize the foreign arrears situation. Moreover, without the debt rescheduling and massive foreign aid since 1986, The Gambia would not have been able to service its external debt.[18]

With the economy contracting, the infrastructure deteriorating, and many public institutions malfunctioning, further decline was inevitable.[19] Some leadership was desperately needed.

The key individual was Minister Sisay. He faced numerous difficulties. Previous ministers of finance had not appreciated the basic nature of the economic problems facing the country and had done nothing constructive to halt the economic decline.

The Ministry of Finance itself was in poor shape. There were few competent economists in the ministry (the permanent secretary had been trained as an historian), and the general performance of the staff was sub-standard.[20] Corruption was widely perceived to be rife. Many ministry officials had lifestyles which should have been well beyond the reach of people on their nominal salaries.

Soon after assuming his duties, Minister Sisay approached both the U.K. and U.S. Governments for technical assistance to strengthen the ministry. Beginning in March 1983, USAID funded a series of short term consultants to work on pressing economic problems. This ultimately led to a formal technical assistance project. The U.K. Government provided technical support to strengthen the treasury. In February 1984 an expatriate accountant general was appointed against vigorous opposition from senior government officials.

Sentiment against outside advisers has been strong among Gambian civil servants. That opposition resurfaced when a USAID-funded technical adviser, who reported directly to the minister, arrived in mid-1985.

Some negative reaction to Sisay's use of outside advisers was understandable because it was unprecedented in the Gambian civil service. Yet, since the ministry staff did not have the technical capacity to provide the necessary advice on the economics of adjustment and reform, the opposition served no constructive purpose.
It took time for some order to be reimposed on the ministry's affairs. In the interim, the technical assistance provided by the donors began to set the groundwork for subsequent policy changes Under Sisay's direction the ministry and the economy began to respond. Three examples are noteworthy: the formulation of the ERP itself, the exchange rate reform, and the action to prevent customs fraud.

With the economy unravelling, the normal sources of international support blocked, and the donors frustrated at the government's unwillingness to change its policies, Minister Sisay directed his permanent secretary to assemble a group of officials from the ministry of finance and trade, the ministry of economic planning and industrial development, and the central bank. Their assignment was to design an Action Program for Sustained Economic Recovery. Before they began, Sisay instructed them to formulate a set of policy measures that would: (i) halt the economic deterioration and (ii) provide a solid foundation for sustained economic growth. He insisted that the officials base their recommendations on technical considerations; the political consequences of the proposed reforms would be dealt with by others.

After meeting for a week in mid-June 1985, the task force presented its report to the minister. With one significant exception, he endorsed its recommendations. (Sisay did not agree that further study on the implications of devaluation was needed.) The key elements of the reform program were announced several days later in the annual budget speech (GOTG 1985). Implementation began immediately with the freeze on government wages and the liberalization of rice prices and rice importation.

From the time Sisay decided to act, he maintained his commitment to the ERP. This was reflected in parliamentary debates, his speeches to local organizations, and in his contact with the donors.[21] A poignant example was his mid-term review of the ERP (GOTG 1987), completed in London in November 1987, during which he was undergoing medical treatment.[22] In the review he summarized the progress made under the ERP, provided a view of where the economy should go, and the policies and actions needed to ensure that it could.

Because many of his cabinet colleagues and other government officials were not convinced that fundamental economic changes of the type contained in the ERP were needed, Sisay's greatest challenge was to demonstrate that, if the main elements of the ERP were implemented, they would have a positive effect on the economy. This required his attention to the measures contained in the ERP as well as factors which could potentially derail the recovery effort. An example of the former was the exchange rate reform; an example of the latter was the crack-down on customs fraud.

For both economic and political reasons, the exchange rate reform was fundamental to the ERP (GOTG 1987; McAuliffe and McPherson 1990). First, although long overdue, the reform was an explicit recognition that the official exchange rate was irrelevant for economic decision making. The majority of foreign exchange transactions in The Gambia were already occurring in the parallel market. The only rationale for retaining the fixed exchange rate was that it provided several well-connected individuals and firms access to foreign exchange at the country's expense. Second, the donors had effectively suspended their financial assistance to The Gambia awaiting a major demonstration that the government was serious about structural adjustment. The exchange rate reform in January 1986 provided such a demonstration. And third, rationalization of the exchange rate complemented the other measures being taken under the ERP.[23]

More than any other policy issue, the exchange rate reform was identified as being Sisay's initiative.[24] At the time of the float, he was the only senior government official to recognize the inevitability of exchange rate reform. Many other government officials were not convinced. There was opposition among the trading community, the senior managers of the public enterprises, the staff of the central bank, and urban residents. Though the cabinet had earlier endorsed the ERP, of which exchange rate reform was an integral part, most of its members would have preferred that the matter be dropped. The president was out of the country at the time of the float.

In effect, Minister Sisay was on his own. The personal and professional stakes were high. Devaluation has led to the downfall of many finance ministers (Cooper 1971:28-29). Indeed, when the leader of the IMF mission announced that the "float had failed" in his first general meeting with Gambian officials three weeks after the dalasi had been floated, Sisay considered resigning.

The float, in fact, had not failed. It had done precisely what a market liberalization should do. It had allowed the pressures underlying the supply of and demand for foreign exchange to be reflected in its price, i.e., the exchange rate. The failure in the initial stages of the reform resulted from the refusal by the commercial banks to make a market in foreign exchange. This situation had been quickly recognized, and Minister Sisay began taking action to ensure that the commercial banks actively participated in the foreign exchange market.[25] Indeed, as subsequent events were to demonstrate, there was a failure of judgement on the part of the IMF as well. At the time, however, The Gambia lacked credibility with the donors, and little could be done to counteract the immediate effects of the IMF's criticism. (The role of other donors in this matter is discussed below.)

A third element where leadership was important was in customs reform. An internal ministry investigation revealed major fraud, which the minister insisted had to stop. Several measures were taken to achieve this, including the use of a British technical assistant in the customs valuation and investigation. The principal consequence of the crackdown on customs fraud was that it removed a major source of macroeconomic disequilibrium. The government budget deficit declined, its borrowing from the banking system fell sharply, and the excess demand for foreign exchange fell. Furthermore, the minister's actions and the support provided by the president for his actions demonstrated that some economic reforms were nonnegotiable. More than any other action, the crackdown delivered a message to those within and outside the government that the minister was intent on changing the economic situation. Few failed to grasp the additional message that, on key economic issues, the president would not second-guess the minister.

Events began to come together rapidly. Within five months of the float and the customs crackdown, the minister announced a general reduction in import duties (GOTG 1986). This had been the first broad-based tax reduction in The Gambia since independence. Besides undermining the position of those who argued that the ERP (in particular, the float and customs reform) were ruining the economy, the tax reduction demonstrated in a practical way that the ERP was beginning to work and that Sisay, as its principal architect, was in control of the situation.

Sisay's credibility continued to rise as the economy improved. Indeed, the results of the general elections of March 1987 were widely seen as a vindication of the ERP and an endorsement of the leadership role which he had taken. Yet, the period immediately following the elections was also the peak of Sisay's influence. As a personal matter, he would soon learn that he was terminally ill. Professionally, it became increasingly difficult to sustain the pressure for reform as the worst aspects of the economic crisis receded. Indeed, the very success of the ERP began to undermine the commitment among senior government officials for continued reform.

Sisay made that point in his mid-term review of the ERP (GOTG 1987). He observed that the economic adjustments based on administrative changes, e.g., floating the exchange rate, decontrolling the price of rice, and raising interest rates, were easy relative to the problems posed by economic reform. In his view, the hardest part of the ERP lay ahead because it required changes in the institutions and attitudes and, ultimately, the behavior of people both within and outside of government. That task would become more difficult as the economic improvements and donor assistance dimmed people's memories of the problems the economy had faced.

Coherent, Comprehensive Reform Program

The Gambia's continued economic decline, despite generally favorable shifts in the international economy, led some senior government officials to question whether the country's economic distress was due to external factors. Attention began to shift to the possible internal causes and the potential changes which the government itself could make. Senior policy makers also began to understand that partial measures would not resolve the economy's problems.

In this regard, the devaluation of February 1984 was useful, for it demonstrated that the economy's problems required credible policy response. The president's speech announcing the devaluation was long on rhetoric and short on action (GOTG 1984a). The dalasi was devalued by 20 percent, which was far too little under the circumstances, without any substantive changes in fiscal and monetary policies. The devaluation produced no perceptible positive economic response. Foreign arrears continued to rise, the balance of payments situation did not improve, and the premium for foreign exchange in the parallel market increased. The trading community and the general public had interpreted (correctly) the devaluation as a sign that the government would not act decisively. The donor community was also unimpressed. The episode simply reconfirmed their view that even with the economy coming apart, the government would not change its policies.

Thus, by the time the ERP task force was assembled, the economic and political stakes were high. To deal with the country's problems, the government had to act boldly. Moreover, to overcome skepticism both locally and abroad, the government not only had to act but had to be seen to be acting decisively. This accounts for Minister Sisay's instructions to the task force, noted earlier.

If nothing else, the ERP was comprehensive. It had six elements:

i. exchange rate reform,
ii. the promotion of agriculture,
iii. the promotion of other productive sectors,
iv. civil service and parastatal reform,
v. fiscal and monetary reform, and
vi. reorientation of the public investment program.

A seventh objective, which followed from i. and v. was to reschedule and rationalize the country's foreign debt.

The exchange rate system of a fixed parity vis-à-vis the pound sterling had become increasingly irrelevant. From 1982 onwards, a parallel market had flourished. By 1985 it had almost completely undermined the official market (McAuliffe and McPherson 1990). For more than a decade the agricultural sector had performed poorly. Indeed, as a result of drought, adverse price incentives, low levels of technical innovation, deteriorating soil fertility, ineffective donor projects, and limited official support, agricultural output had stagnated. By mid-1985 the sector's share in GDP was less than 30 percent despite the fact that it employed more than 75 percent of the labor force. (At independence the sector's share in GDP had been 43 percent.) Any hope of a sustained economic revival required a major improvement in agriculture.

The promotion of other productive sectors, e.g., tourism, fisheries and aquaculture, transport and communications, and business services, also had to be emphasized. From the introduction of national planning in The Gambia, the government had invested heavily in infrastructure and the establishment of public enterprises. That investment had done little to enhance national output. Indeed, the expansion of public enterprises directly discouraged productive activity. Businessmen could earn more with lower risk by lobbying for special access to state-sponsored activity than by taking the risks involved as entrepreneurs and private producers.

The civil service and parastatal enterprises, both of which expanded rapidly after the mid 1970s, became a major drain on the economy. The civil service was inefficient and overstaffed while the parastatals were chronic loss makers. The fiscal system was ineffective and too highly focused on taxes on international trade. New directions were needed in monetary policy, especially with respect to interest rate and credit policy. For too long the central bank had passively monetized the public sector deficit through direct lending to government or by refinancing loans made to public enterprises.

The reorientation of the public investment program was an overdue recognition of The Gambia's acute recurrent cost problem (McPherson 1979). Under the ERP only projects with expected returns of at least 15 percent, whose recurrent costs were supportable, and which focused on rehabilitation and maintenance were to be promoted. Furthermore, the government needed to move quickly to restore the country's international creditworthiness. With foreign arrears mounting rapidly and the IMF in the process of declaring The Gambia ineligible to borrow, action in this area was urgent.

Viewed broadly, the ERP covered every major aspect of the economic system. Its policies were internally consistent and complementary. For example, the fiscal and monetary reforms were designed to complement the exchange rate reform, and price liberalization was designed to enhance parastatal performance.

Developing a comprehensive recovery program is one thing; having it implemented is another. As the experience from other countries has shown, the introduction of major reform packages often involve civil unrest. The Gambia's recovery program was implemented without public disorder (McPherson and Radelet 1989; Radelet 1990:219ff.). Indeed, in the elections held less than two years after the ERP was introduced, the government increased its majority (see endnote 16). The lack of overt resistance can be attributed to: The Gambia's long tradition of democratic rule, the process by which the ERP was implemented, and the evidence of a relatively rapid economic turnaround.

Rare among African countries, The Gambia has maintained a strong democratic tradition. This has fostered a moderate political setting where differences of opinion are openly tolerated and freely expressed. Because the country itself and its population are small, senior government officials have remained highly accessible to the general public. Therefore, despite widespread grumbling about the economy prior to the formulation of the ERP, the country's leaders were neither insulated nor spared from it.

The manner in which the ERP was implemented served to diffuse popular discontent. Though some of the measures were taken immediately after the minister announced the initiative in his budget speech, the major policies were introduced over time. The float of the dalasi, for example, did not occur until six months into the program. The sequential pattern of implementation served two purposes. First, it was an explicit recognition by senior policy makers that the government itself did not have the technical capacity to implement the ERP as a "big-bang" (even if such an approach had been advisable). Second, it enabled the general public to get used to the idea that particular policy changes would in fact be made. As noted earlier, many people doubted that the government would act constructively. Few people expected that some of the potentially volatile measures, such as the civil service retrenchment, the wage freeze, and even the exchange rate reform, would occur. As the ERP gathered momentum and the public realized that the government had indeed been serious, the opportunity to oppose the reforms had passed.

Potential opposition to the policy changes had also been deflated by evidence which began to emerge soon after the ERP was introduced that the adjustments were having a positive impact on the economy. Following the liberalization of rice imports and the civil service wage freeze announced in the budget, the central bank raised interest rates in September 1985. The prices of petroleum products were increased sharply in December

1985, and the dalasi was floated in January 1986. Action to deal with customs fraud was taken in February. Those measures, together with the large agricultural harvest in 1985-86 and the sharp decline in the world prices of rice and petroleum products in early 1986, combined to stabilize the economy (GOTG 1987; McPherson and Radelet 1989).[26] The recovery was so pronounced that by May 1986 the IMF, which had been highly critical of The Gambia's efforts four months earlier, was prepared to structure a program.

Having normalized its relationship with the IMF, The Gambia approached the Paris and London Clubs in September and November 1986, respectively, to reschedule the country's debts.

The Role of the Donors

The donor community contributed to the success of the ERP in at least three ways. First, the refusal of key donors to continue helping The Gambia finance its external imbalances forced the government to face the issue of economic adjustment. Second, the technical assistance provided by the donors prior to and during the formulation of the ERP was critical. Once the implementation of the ERP was underway, this assistance was complemented by generous financial support.[27] Third, the donors have ensured that the conditions attached to their support have been met. Each of these points is examined in turn.

The withdrawal of donor support precipitated the conditions which led to the formulation of the ERP. The breaking point for several donors was the conference in November 1984 organized around the mid-term review of The Gambia's second five-year plan. The conference convinced the staff of the World Bank, USAID, and the U.K. Overseas Development Administration (ODA) in particular, that the government was either unaware of the basic nature of the economy's problems or that it was not serious about addressing them. On both counts, few donors saw the point of providing additional support. Thus, the conference, which had been specifically intended to launch a four-year, D777 million ($180 million at the 1984 exchange rate) investment program (exclusive of the estimated $420 million for the 20-year bridge-barrage development project), ended in failure.[28] In fact, World Bank called for a major reduction in the program and a complete reorientation of its activities (World Bank 1985:39-41).

Events began to move quickly. The IMF suspended its stand-by program in January 1985. The proximate cause was the government's failure to consult the IMF management over a wage adjustment for the lowest paid civil servants. The problem, however, was that The Gambia was in arrears to the Fund. USAID indicated that balance of payments support would not be provided. The Standard Chartered Merchant Bank (London) refused to provide additional credit to the government. The World Bank asserted that its support was out of the question until The Gambia reached a new agreement with the IMF.[29] Special requests by the president to The Gambia's more sympathetic supporters for emergency assistance were unsuccessful.[30]

These setbacks placed the government in an unenviable position. Its traditional sources of donor support had evaporated, and neither the central bank nor the GPMB could borrow abroad. Furthermore, the country's arrears to its creditors continued to mount.[31] This confluence of events seemed to convince the president that fundamental changes were needed. The major donors had left no doubt that they believed that most of the country's difficulties were the result of government policies. Hence, by mid-1985 the president was temperamentally disposed to accept a major redirection of economic policy should it be proposed. This gave Minister Sisay room to take the initiative with respect to economic reform.

The technical and financial support provided by the donor agencies were vital to the success of the ERP. The failure of the November 1984 conference highlighted the serious technical weaknesses in the ministry of finance and the president's office as well as the ministry of economic planning itself. That such an unrealistic set of macroeconomic proposals had passed several review processes underscored the general absence of any capacity for constructive economic analysis and critical review within the government.

As noted earlier, Sisay had already recognized the weaknesses in the ministry of finance and had sought technical support from the United States and the United Kingdom. A series of short-term consultancies occurred while longer-term arrangements were being made. These consultancies dealt with foreign debt, income tax reform, government-parastatal interlocking arrears, revenue collection, debt rescheduling, exchange rate reform, financial restructuring, and the operations of the GPMB. While the work responded to some of the country's immediate problems, it lacked a clear focus. Such a focus emerged when the ERP was formulated.

Once the ERP was formally adopted in August 1985, a special effort was needed to generate donor support. With that objective, the World Bank, with U.K. support, sponsored a donors' conference in London in September 1985. Although it produced little additional financial support,[32] the conference provided a forum for senior Gambian officials to convey their government's intentions to the donors and provide a broader perspective on the ERP itself (GOTG 1985a). The donors were generally impressed with the comprehensive nature of the ERP and the seriousness with which Gambian officials viewed the economy's problems. Yet, in view of the record of inaction, most donors decided to wait for tangible proof of the government's resolve. The float of the dalasi provided that proof.

With the hiatus surrounding the IMF's February 1986 mission to The Gambia and the dramatic turnaround in the economy in the first half of 1986, most donors began to change their views about providing support. The principal difficulty, however, was The Gambia's arrears to the IMF. These were settled in July 1986 with a bridge loan from Standard Chartered Bank. In August 1986, The Gambia obtained a stand-by and CFF from the IMF and a structural adjustment credit from the World Bank. The credit was cofinanced by the United Kingdom, the Saudi Fund, the African Development Bank, and, retrospectively, the Netherlands. With the IMF program in place, The Gambia approached the Paris and London Clubs and rescheduled approximately $44.2 million in debt (Radelet 1988).

The restoration of financial support and the rationalization of the arrears eased The Gambia's adjustment burden. Indeed, with balance of payments support of close to 35 percent of GDP over the period 1986 to 1990, the donor response overwhelmed the reform effort.

The third way in which the donors have contributed to the success of the ERP is through their vigilance. Two dimensions have been important. First, donor intervention was crucial in gaining support for the ERP at a time when The Gambia's credibility in international circles was low. Second, the donors have been militant in assuring that conditions mutually agreed upon with the government have been met.

During 1985 skepticism about the government's willingness to adjust was extreme. At that time few people were prepared to admit that the ERP and the initial measures taken by the government represented an important break with the past. Even late in 1985 it would have taken a major leap of faith to believe that the government was serious about reform. All of the politically difficult measures (civil service retrenchment, the float of the dalasi, financial reform, performance contracts and so on) were still only intentions.

Yet, there were some positive signs. The proposed policies constituted a comprehensive program which would reverse the economic decline; Minister Sisay was fully committed to their implementation; and the ERP had been formally adopted as government policy. Moreover, the changes which had already been taken, such as the liberalization of rice imports, were all steps in the right direction.

The USAID representative and the British High Commissioner were convinced that the Gambians were serious about reform. Their timely support for the government's efforts proved to be crucial in a number of ways. Two examples stand out: their assistance in dealing with customs fraud and their intervention to counter the negative reactions about The Gambia following the failure of the IMF mission in February 1986.

Information and contacts provided by U.K. and U.S. officials were vital during the investigation of customs irregularities. After the crackdown in February 1986, their technical assistance and regular expressions of interest helped sustain the government's effort.[33]

Numerous factors contributed to the failure of the IMF mission in February 1986. The attitude of the mission leader had been "less than helpful" (Sisay's phrase). His briefing of ODA officials in London at the end of the mission left extremely negative impressions about The Gambia's prospects. That same message was repeated in Washington. When this news was conveyed to Banjul, both the British High Commissioner and the USAID representative made a special effort to present The Gambia's view of events in their respective capitals. They believed that the circumstances warranted a more positive assessment of what the government was attempting. As a result of their efforts, the IMF staff was effectively told to return to The Gambia in May 1986 to structure a program for the country.[34]

The vigilance of the donors in support of the ERP has shown up in numerous ways. Examples include the conditions attached to the initial IMF stand-by and World Bank SAC; the progress of exchange rate reform; and, more recently, measures to promote financial reform.

The IMF-World Bank program in 1986 had numerous, exacting conditions. A checklist of substantive measures which were supposed to be implemented during the one-year program covered more than 75 items. The length of the list was a response to the extent to which the economy had deteriorated. Urgent measures had to be taken on a broad front simply to prevent further retrogression. Nonetheless, the number and nature of its items were also a reflection of the fact that neither the IMF nor the World Bank trusted the government to honor its commitments.

In fact, The Gambia met all of the Fund's performance criteria under the 1986 program and most of its other achievable targets.[35] Based on The Gambia's performance since then, the donors' conditions have become easier to meet and, in the case of the IMF, less rigidly scrutinized.[36]

In the area of exchange rate reform, once the initial reluctance of the commercial banks to make a market in foreign exchange was overcome, the interbank system worked smoothly and the parallel market collapsed. Yet, as memories of the prefloat difficulties began to dim and a new team (governor and general manager) took control at the central bank, the temptation to begin intervening in the market proved irresistible. From early 1989, with no reference to domestic and foreign events at the time, the central bank decided that the dalasi should not be allowed to depreciate further. Market pressures were such that the dalasi should have depreciated significantly (McAuliffe and McPherson 1990). There had been four developments which raised the demand for foreign exchange. The Mauritanian community had withdrawn in the aftermath of the Senegal-Mauritania border dispute in April 1989. There had been a sharp rise in local purchasing power following the revision of public sector wages. Uncertainty had increased among the trading community when the Senegambia Confederation was dissolved in August 1989. And, following the government's failure to act on the March 1989 report on customs fraud, there was an increase in illicit profits seeking an outlet in foreign exchange.

From early 1989 onwards the staff of the ministry of finance had made numerous attempts to convince central bank officials that their policy of attempting to refix the exchange rate was: (a) contrary to government policy; (b) economically counterproductive; and (c) unsustainable. The attempts failed. The reemergence of a large premium in the parallel market and a pipeline of applications at the commercial banks made no impression either.[37]

The central bank's policy changed only after the government missed the end-December 1989 foreign reserves target by a large margin, and the IMF staff left no doubt that central bank actions were undermining the Fund program and (potentially) the whole recovery effort. Since that time (February 1990), the central bank has participated aggressively in the foreign exchange market, and the dalasi has depreciated from D12.1 to the pound to around D14.5 to the pound. By end-June 1990 the central bank's net purchases of foreign exchange were approximately SDR14 million, and the government met the revised IMF target by more than SDR4 million.

Donor vigilance in the area of financial reform degenerated into brinkmanship. Both USAID and the World Bank had to threaten to suspend their balance of payments support. USAID reached the point of canceling its technical assistance as well. The basic issue was whether the government would honor its earlier decision to implement the recommendations of the diagnostic review of the GCDB.[38]

Among other things, the review recommended that the managing director be fired, the Board of Directors be reconstituted, an expatriate team of advisors with executive responsibility be hired to regularize the bank's affairs, the bank be split into commercial and development sections, and the commercial section be privatized once it had been recapitalized and its portfolio (most of which was non-performing) had been rationalized. In what became a basic point of contention, the study also recommended that the expatriate managing director (MD) would, within one year of arriving on the job, identify and recommend to the Board a Gambian MD-designate.

Such a potential loss of control over the GCDB was politically unacceptable. In advance of the arrival of the expatriate MD, a "safe" Gambian candidate was identified and approved by the Board. USAID and World Bank officials interpreted that action as evidence that the government was not serious about reforming the GCDB. Their respective representatives urged the government to implement the relevant recommendation of the diagnostic review. The government's reluctance to change course forced a confrontation.

Faced with the prospect of the withdrawal of USAID financial and technical assistance, the government changed course. The Board of Directors of the GCDB rescinded its decision regarding the MD-designate.

The Future Direction of Economic Reform

In his 1990-91 budget speech (GOTG 1990), the minister of finance announced that the government was developing a program of sustained development (PSD) to build on the achievements of the ERP. To promote this effort, government officials were working with UNDP-funded consultants to prepare for a donors conference to solicit additional financial support.[39] The minister also expressed confidence that The Gambia would again meet all of the performance criteria established by the IMF for the year ending June 1990.

Overall, the speech and its message were upbeat. Notwithstanding the minister's optimism and the continued progress evident in the macroeconomic data, there were signs of serious pressures in the economy.

The reform effort had eroded in several directions. First, the budget process had become more chaotic. Second, customs fraud was again a major problem. Third, the PSD was explicitly based on the fallacious, pre-ERP notion that higher levels of donor support would accelerate economic growth. By contrast, a theme of the ERP was that The Gambia should reduce its dependence on external finance by raising more resources domestically (GOTG 1987). Fourth, resistance within the government to the reforms needed to sustain the recovery had increased. The hiatus with the GCDB was symptomatic. Fifth, the dissolution of the Senegambia Confederation led to an increase in defense spending, which diverted resources from more productive uses. Sixth, the parastatal reform program had stalled. Seventh, a libel trial over allegations of ministerial corruption undermined national and international confidence in the Gambian judicial system.[40]

Taken individually the examples could be dismissed as slippages that would not deflect the economy from its rising trajectory. Together, these examples pointed to a relaxation and disruption of the reform effort. Indeed, there is widespread evidence that the complacency, inefficiency, and corruption which created many of The Gambia difficulties in the late 1970s and early 1980s have once more gained the ascendancy in the conduct of public affairs.

So far the conditions the donors have attached to their support and the sheer volume of their assistance have kept the economy on a quasi-stable path. That situation is unsustainable. Moreover, the current setting in which the achievement of key economic targets is treated as a "game" against the donors and reform only occurs in the breach provides little encouragement that the PSD will build on what the ERP achieved.

Concluding Observations

Political factors have had a profound effect on The Gambia's economic performance. Prior to the introduction of the ERP, government inaction brought the economy to the verge of collapse. Two factors dominated. The government was unable to rise above the narrow concerns of local pressure groups, and senior government officials believed that the donors would bail the country out.

The formulation of the ERP was also affected by political considerations. The withdrawal of donor support highlighted the diplomatic, political, and economic costs of the government's unwillingness to deal with the economy's decline.

With the introduction of the ERP, political factors had their most important and direct impact on economic *adjustment*. The measures taken have revived the economy. In this respect, The Gambia's performance has been exceptional. The government took the decisions needed to turn the economy around. The changes were introduced without social unrest and without compromising The Gambia's democratic tradition. In some instances potentially damaging divergences from the ERP policies have been rectified. The way the central bank corrected the distortions in the exchange rate system in 1989 and 1990 is an example. Finally, the president has on several occasions selectively replaced public officials whose actions have been inconsistent with the government's policies.

That so many positive results have emerged from what appeared to be such a hopeless position in mid-1985 is a remarkable performance for any country in sub-Saharan Africa.

Notwithstanding the positive outcomes, political factors have generally had an adverse effect on economic *reform*. The delay in introducing the recovery program caused major long-term damage to the economy and its institutions. That, in turn, made the task of reform more difficult. The very success of the ERP in adjusting the economy has diverted attention from the reform effort, and some of the gains made under the ERP have been allowed to lapse. The erosion of budget discipline and the reemergence of customs fraud are obvious examples. There is once more a lack of leadership, and the complacency and inefficiency which characterized the pre-ERP period have reappeared.

Notes

1. Adjustment means bringing something to a more satisfactory state; reform is the amendment or improvement of something by ... the removal of faults and abuses (*Webster's Collegiate Dictionary* 1980:15, 971).

2. That outcome is consistent with arguments associated with proponents of theories of "dependency" and "neocolonialism" (Frank 1967; Nkrumah 1965; 1970; Amin 1974).

3. Following the rise in oil prices, there was a large increase in aid from organizations such as the Saudi Development Fund, the OPEC Fund, the Kuwait Development Fund, and others. Other organizations were created to promote specific aspects of development. The International Fund for Agricultural Development and the International Food Policy Research Institute are examples.

4. The International Monetary Fund (IMF) established the Compensatory Fund Facility (CFF), the Trust Fund, and introduced the Extended Fund Facility. The World Bank shifted to program assistance through its Structural Adjustment Credits (SAC). The Lomé Convention introduced STABEX and the Sectoral Import Program. Bilateral donors expanded their balance of payments support. USAID, for example, introduced the Africa Economic Policy Reform Program.

5. The most active of these has been the Group of 77 of non-aligned nations. Other groupings have included the ACP (African, Caribbean and Pacific) countries which negotiated the Lomé Convention with the European Community. In West Africa, CILSS (the Permanent Inter-State Committee Against the Drought in the Sahel) and ECOWAS (the Economic Community of West African States) were also formed. Groups established earlier, such as the Organisation of African Unity (OAU), became active.

6. Until Mexico defaulted on its debt in 1982, few questions were raised about the capacity of countries in SSA to support their external debt. Those debts increased by a factor of 8 during the 1970s. In The Gambia the difficult balance of payments situation had been noted publicly as early as 1978 (Sisay 1978).

7. With few exceptions all of the economic indicators in SSA were worse at the end of the 1980s than at the beginning, especially when related to population and natural resources. The erosion of Africa's industrial capacity is illustrated by the decline in its share of manufactured production and industrial exports (World Bank 1989: Ch.1). Notwithstanding the declaration by the African heads of state at Abuja, Nigeria, in May 1991 regarding an African common market by the year 2025, the prospects for economic integration are dim. Setting aside internal and international animosities, none of the countries of SSA has the resources to promote the type of projects—telecommunications, roads, industrial zones, and agricultural processing facilities—that could foster closer integration. Any major effort in this area would have to be funded by the donors, most of whom have other priorities.

8. Donors concerned over the social costs of adjustment are providing additional resources to governments in SSA for programs designed to help the poor (World Bank 1990:Ch.6). The irony should not be missed. Helping the poor has been the area where most governments in SSA have shown the least practical concern over the last two decades. Why would any donor reasonably expect a government which is already severely stressed financially to adopt measures which will raise the living standards of the poor?

9. The delay resulted from several factors. First, despite many warnings and direct evidence of the consequences of inaction, the government chose not to change its policies. Second, many members of the government and civil service believed that the donors would bail the country out. Third, there was considerable internal opposition to reform, particularly among those who benefitted from the overvalued exchange rate, access to cheap credit, and subsidized food. And fourth, many senior government officials attributed The Gambia's problems to external events (drought, oil price increases, rising real interest rates in world markets, the decline in export prices, reductions in external assistance, and so on). Internal policies were not seen as a part of the problem.

10. Because external funding had been cut, the only option for the government was Central Bank financing. Inflation was accelerating and the economy was "dollarizing" rapidly. The additional borrowing from The Central Bank sharply depreciated the dalasi on the parallel foreign exchange rate which added to the inflationary spiral.

11. Underlying the government's inability to fund itself without risking runaway inflation was a widespread pattern of institutional collapse. Few government agencies were performing adequately. The civil service was over-staffed and inefficient; corruption was widespread; and the public enterprises were poorly managed. Professionalism and integrity had given way to indifference and malfeasance. Two examples are illustrative. There was a complete lack of interest in debt management in the Ministry of Finance and trade prior to the introduction of the ERP. And, in 1985 alone, customs fraud reduced government revenue by at least D35 million (40 percent of total customs revenue).

12. Evidence suggested that the coup leader had been supported by Libya. Soviet support was also rumored. Senegalese intervention, therefore, served several purposes: it honored an existing mutual defense treaty with The Gambia; it was consistent with French (and Western) policy to contain Libyan influence; and it affirmed a commitment to the orderly democratic transfer of power (Senegal, like The Gambia, is a multiparty democracy). For internal reasons, the Senegalese would also not allow a rebellion to succeed in The Gambia. It would have provided the wrong signals to secessionists in the Casamance.

13. Total aid for 1981-82 was $75.8 million or 44.2 percent of GDP.

14. General elections were held in 1982 and the president and People's Progressive Party (PPP) were returned to power. That elections were held so soon after the attempted coup reinforced the government's commitment to multiparty democracy. The PPP had several advantages over the opposition. Unique in Africa, it derives its political support from the rural areas. During their campaign, members of the PPP were able to portray the coup attempt as having been urban inspired. Under the emergency following the attempted coup, the leader of the major opposition party had been jailed. The continued presence of

Senegalese troops and gendarmes were reminders that the government (and the PPP) had the support of a powerful friend.

15. McPherson and Radelet (1989) and Radelet (1990) have emphasized the political effects of The Gambia's relations with Senegal. As The Gambia's economic situation worsened, key Gambian policy makers were aware that the Senegalese could readily exploit any instability in The Gambia. The government took additional precautions, e.g., road blocks and police patrols. With the benefit of hindsight, however, it would have been difficult for Senegal to take advantage of disturbances in The Gambia, short of a complete break-down of law and order. Senegal already had troops in The Gambia and a joint confederal administration for their control existed. A Senegalese takeover would have produced a major diplomatic flap. The OAU has regularly reaffirmed its commitment to Article III of *The Charter of Unity* which guarantees the integrity of each member State, affirms the principle of non-interference, and "unreservedly condemns" political assassination and subversive actions of one member state against another. Having already rescued The Gambia from one coup attempt and restored its elected government, the Senegalese would have found it difficult to justify establishing its own administration especially if the Gambian government had not requested such intervention. Now that the Senegambia confederation has been dissolved, the situation is more fluid. Senegal has border disputes with Guinea-Bissau in the south, Mauritania in the north, and a resurgent rebellion in the Casamance. Should The Gambia become a staging area for rebels, Senegal would have a much stronger case for intervention.

16. Of the 36 elected Parliamentarians in 1982, 30 were members of the PPP. The opposition members were from two other parties. The elections in March 1987 were contested by 113 candidates from five parties. The PPP won 32 seats. In the presidential elections there were three candidates.

17. The Ministry of Finance and Trade, which is responsible for monitoring all government borrowing, did not maintain proper records of external borrowing. A complete record was compiled only in 1988 and then only after many of the creditors supplied details of the debts.

18. Balance of payments support from 1986 to 1990 averaged 32 percent of GDP. That estimate was computed as the sum of loans, IMF purchases, debt rescheduling, and 50 percent of official grants (mainly fuel and food) over the period 1986 to 1990.

19. Two types of institutional malfunction have been evident: the organizations were ineffective (i.e., they were not achieving the purposes for which they were established) and they were inefficient (i.e., they used their resources wastefully). Examples of the former include the central bank, which failed to adequately supervise the financial system; the Gambia Public Transport Authority, which could not provide basic services because its bus fleet was unserviceable; and the Customs Administration, which failed to collect the revenue owed to Government. Examples of the latter include the Gambia Commercial and Development Bank, which did not collect many of its loans, and the Gambia Utilities Corporation, which provided power and water on an intermittent basis at high and variable cost.

20. The assessment was made by a USAID-funded consultant to the ministry in March 1983. Based on the report, the minister requested USAID to fund a technical assistance and training project in the ministry. A review of the ministry in 1989 by a team of consultants from the Management Development Institute showed that, although the technical competence of the ministry's staff had increased (in part because of USAID-funded training), the staff were poorly administered and lacked motivation (MDI 1989).

21. In addition to regular meetings with senior diplomats and aid personnel in The Gambia, the minister had several opportunities to press The Gambia's case abroad. Notable examples were his address to the IMF Board of Governors at Seoul in 1985 in response to IMF concerns about The Gambia's arrears, his remarks to the IMF/World Bank at the negotiations of the IMF stand-by and World Bank SAC in August 1986, and his statement to the members of the Paris Club in September 1986. On those occasions Sisay acknowledged that The Gambia had serious problems, but that the government was fully committed under the ERP to remedy them.

22. In mid-1987 Sisay was given only a few months to live. But, following treatment, he resumed his duties as Minister on (almost) a full-time basis from February to July 1988. Further treatment curtailed his official activity thereafter. From January 1989 onwards, his health deteriorated rapidly. He died in early March 1989.

23. That point had been reinforced by Professor James Duesenberry of Harvard University, who, during a visit to The Gambia in January 1986, was adviser to the minister. Duesenberry pointed out that, in a floating exchange regime, all macroeconomic shocks would show up in the exchange rate. To avoid sharp fluctuations in the exchange, special efforts had to be made to reduce the disturbances created by other macro events.

24. Though divided over the issue, the ERP task force recommended the additional study. Some members of the task force had argued that exchange rate reform was essential. They pointed out that without reform the parallel market would continue to undermine the official exchange system. Other members, however, especially those from the Central Bank and Ministry of Economic Planning, could not be convinced that exchange rate reform was necessary. In their view, the 1984 devaluation had not had time to be fully effective. (That argument was the theme of a central bank memo produced in early 1985.) As noted in McAuliffe and McPherson (1990), the argument misinterpreted the outcome of the 1984 devaluation. The positive effects of the devaluation had been discounted with no perceptible improvement in the balance of payments. In fact, the timidity of the 1984 devaluation and lack of supportive policies (such as sharply lower public sector deficit) adversely affected public confidence. Minister Sisay rejected the recommendation and ordered that exchange rate reform be included in the ERP.

25. The idea was to change the behavior of the commercial banks by bringing pressure on their managing directors. The head of the GCDB was hostile to the float and because of his political connections beyond the ministry's direct influence. His cooperation could not be negotiated or forced; he had to be outflanked. This was done by bringing pressure on the managing director of the Standard Bank (Gambia). Although he did not oppose what the float was intended to achieve, he was not prepared to move to change the exchange rate independently of the MD at the GCDB. That position was consistent with local short-term political concerns, but it was an outrageous contravention of the national interest.

Unable to convince him to change his position, the minister made plans to contact the MD's superiors in London. An unexpected opportunity arose when the MD's boss visited The Gambia a month after the float. When he was advised of the situation, he promised to follow up on the issue. On the very next trading day, the MD of Standard Chartered independently moved the exchange rate to D9 to the pound. That move broke the stand-off among the banks which then began to compete aggressively for foreign exchange. Within two months, the parallel market had become moribund.

26. The 1984 agricultural season had been a disaster even by West African standards. Food supplies were exhausted in many areas months before the traditional "hungry season" of early summer. Farmers responded by increasing the area planted to food crops. With the better rains in 1985-86, the supply of locally produced food increased. Despite the economic hardships, there was adequate food. The declines in the world prices of rice and petroleum occurred at around the same time as The Gambia floated the dalasi. The former reduced the inflationary impact of the float by lowering the rate at which the dalasi equivalent of the dollar price of rice increased. Although the ERP raised the local price of petroleum products substantially, the decline in the world price eased the pressure on the balance of payments.

27. The model reported in Radelet (1990) measured the relative contributions of aid, policy reform, and improved weather (among other things) to The Gambia's economic growth during the ERP. His estimates show that aid was the single most important factor. Radelet argued that donor support had the added effect of making the policy changes more acceptable to the general public. In his view, it helps explain why the recovery was not socially disruptive. However, the point can be overstated. Aid was important. It is useful to recall that financial support from the donors was revived only after the ERP was well into its second year. Aid flows do not explain why there was an absence of protest immediately prior to the formulation of the ERP and during 1985-86.

28. That outcome did not surprise Minister Sisay. Although on leave at the time of the conference, Sisay had drafted a memorandum which challenged the premises of the *Mid-Term Review*. He argued that the large-scale expansion of investment without major changes in macroeconomic policies could, at best, only provide short-term relief for the economy.

29. Annexed to the World Bank's Country Economic Memorandum was a projection model for the period 1985 to 1995 (World Bank 1985). The most optimistic projections showed an uninterrupted decline in per capita GDP.

30. One of the donors was the United Kingdom. In a meeting with the chancellor of the Exchequer (Sir Geoffrey Howe) in early 1985, the president was told that Her Majesty's Government would consider additional aid only after The Gambia had demonstrated that it was serious about economic reform.

31. An embarrassing debt was The Gambia's arrears to the West African Clearing House. The amount was almost $20 million. The bulk of the debt was unmet claims by the BCEAO on account of enterprises in Senegal and Côte d'Ivoire.

32. The Dutch government provided a grant to purchase petroleum.

33. One social factor which enhanced the initial success of the crackdown on customs fraud was that key members of the trading community learned that U.K. and U.S. Government officials knew they had been cheating. That knowledge created some embarrassment for the few who could feel some remorse about defrauding the government. Unfortunately those feelings faded. The same traders were revealed to be cheating during the customs investigations of 1988 and 1989.

34. Action taken by Minister Sisay was also important. He responded to the IMF mission's Aide Memoire. He argued that the IMF staff had misinterpreted the economic situation, misjudged the government's resolve, and underestimated the capacity of the measures being taken to stabilize the economy. The memo had a positive effect on perceptions of senior Bank and Fund staff.

35. Among the many conditions were some that were marginal at best, yet had been included by Fund and World Bank staff as a means of "rounding out" the package. The potential burdens on Gambian officials and the relevance of the conditions in the context of the overall recovery effort, particularly their timing, were ignored. An illustration was the condition that "by October 30, 1986, draft legislation would be prepared which converted all parastatal corporations from public enterprises to limited liability entities registered under the Company's Act." Gambian officials could not persuade the World Bank staff to modify this condition. They did not disagree about the desirability of the change, but the timing posed unnecessary burdens, particularly in view of more pressing items on the legislative agenda. The main constraint, however, was that The Gambia had only one legislative draftsman at the time and he took his annual leave during September and October. In the event, the condition was not met; the World Bank did not press the issue.

36. An example is the IMF review of the 1989-90 program. With some fudging, the government met all of the IMF's performance criteria set for end-June 1990. After an uncritical review, the IMF structured a follow-on program. By completing that program, The Gambia would be the first African country to "graduate" from the ESAF program. Pressure has mounted on the IMF to demonstrate that its programs can succeed in SSA. Because it was so close to "graduating," The Gambia benefited from the IMF's interest in seeing that performance criteria are met. While that strategy has allowed the Fund to deal with the pressures it faces, it has done little to promote The Gambia's development. Specifically, it has strengthened the position of senior government officials, who use the IMF's apparent satisfaction with The Gambia's performance to argue that other donors should ease their conditions. Since these conditions apply mainly to institutional reform, an area in which The Gambia has made the least progress, the other donors are placed in a difficult position. They either have to relax their conditions or divert their efforts to a justification of why they are being "tougher" than the IMF.

37. During the summer of 1989 the premium on foreign exchange reached 10 percent, and the pipeline of unmet applications for foreign exchange at the commercial banks was three months.

38. The diagnostic review was undertaken because of the resistance to reform by the management of the GCDB. The perilous state of GCDB's finances was revealed as early as 1983 in a central bank supervision report (which was never acted upon), a study by a

USAID-funded consultant (Wing 1983), and a World Bank financial sector review (World Bank 1985a). No purposeful action to deal with the problems was taken until the ERP was formulated. A start was made in January 1987 with the establishment of the managed fund of Government-guaranteed debt. That action provided temporary relief to the GCDB. As pressure mounted from the donors for further action, GCDB's management proposed the diagnostic study. A plan to privatize the bank was produced and agreed only in June 1991.

39. As originally conceived, the conference was to be in September 1989. The date was moved to March 1990, then September 1990, and finally December 1990. Few of the major donors saw much point in the exercise. The Gambia's request for additional aid was generally ignored. Like the donors conference in 1984, the outcome was significantly less than Gambian officials had hoped.

40. The trial involved charges of libel against a journalist who referred to the minister of finance and three of his colleagues as "crooks."

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Some Basic Facts About Ghana

Present Official Name: Republic of Ghana

Year of Independence: 1957

Pre-Independence Status: British colony

The Government

Capital City: Accra
Head of State: Flight Lieutenant Jerry Rawlings
Head of Government: Flight Lieutenant Jerry Rawlings
How/When Present Government Came to Power: Military coup (1981)
Number of Officially Permitted Political Parties: 0 (but a constitutional referundum and subsequent multiparty parliamentary and presidential elections are planned for 1992)

The People

Population: 14.4 million (World Bank estimate for mid-1989)
Average Annual Population Growth (%): 3.4 % (World Bank estimate for 1980-1989)
Major Languages: English (official), Akan, Mole-Dagbani, Ewe, Ga-Adangbe, Twi
Religions: Traditional belief systems (38%), Christian (24%), Muslim (30%)
Number of Universities: 3

Some Economioc Data

Area: 92,100 sq miles (238,537 sq km)
GDP ($): $5,260 million (World Bank estimate for 1989)
GNP per capita ($): $390 (World Bank estimate for 1989)
Major Seaports: Tema, Takoradi, Accra
Major Exports: cocoa, gold
Other Present or Potential Sources of Income: timber, manganese ore, diamonds, seafood, rubber, bauxite
Major Imports: food and live animals, basic manufactures, inedible nonfuel crude materials, mineral fuels and lubricants
Major Trading Partners in Descending Order of Importance (1989):
Imports: Nigeria, UK, USA, West Germany
Exports: West germany, UK, USA, Togo
Total Foreign Debt ($): $3,078 million (World Bank estimate for 1989)
Debt Service Ratio (Total Debt Service as % of Exports of Goods and Services): 48.9% (World Bank estimate for 1989)
Monetary Unit: cedi

Armed Forces

Size/Breakdown: Active 11,900 (army 10,000, navy 1,100, air force 800), paramilitary 5,000 (IISS estimate for 1991)
Annual defense expenditure ($): $41 million (1989)

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Chapter 5
Economic Crisis and Reform in Ghana

Jeffrey Herbst

Introduction

During the 1980's, almost all African countries were preoccupied with reforming their economies. Given the economic crisis that Africa faces and the only partial implementation of reform programs, structural adjustment will continue to be the major problem facing most countries on the continent in the 1990's. In addition, in light of the revolutions in Eastern Europe and increasing domestic pressures for democracy, most African countries face the complex problem of how to implement some type of political liberalization while their economic reform programs continue.

In order to better understand the dynamics of reform, this paper examines the politics of structural adjustment in Ghana under the government of Flt. Lt. Jerry Rawlings from 1983 to the present. Ghana is particularly interesting and relevant to the experiences of other African countries for two reasons. First, the economic decline it suffered paralleled what many other African countries were experiencing in the 1970's and 1980's. Second, the Economic Recovery Program (ERP) that the Rawlings government has implemented is generally considered to be the most comprehensive on the continent. Indeed, it is one of the few to go beyond the stabilization phase (the changing of prices to balance fiscal and external accounts) to altering fundamental economic institutions. Therefore, Ghana may hold important lessons for other African countries also seeking to implement comprehensive reform.

This study is divided into four parts. The first section briefly reviews Ghana's economic history from 1957 until December 31, 1981, when Rawlings took power. The second part examines the implementation of the ERP and focuses on three specific areas of reform: devaluation and reform of the exchange rate regime, reform and privatization of state-owned enterprises (SOE's), and reform of the banking sector. Devaluation and reform of the exchange rate regime, an extremely common aspect of most reform programs, is interesting because these reforms must be implemented early in any stabilization program.[1] While politically difficult, modifications of the exchange rate regime do not require a great deal of administrative capability. However, because it is such a contentious issue, exchange rate reform often fails. For instance, in approximately one-half of the African countries attempting to float their currencies in the 1980's, the effort was eventually abandoned, often concluding with a real appreciation of the currency.[2]

Reform and privatization of SOE's usually starts after the initial crisis, when states begin to examine how they can alter fundamental economic institutions to grow faster.[3]

However, reform and privatization of SOE's requires far more administrative capability on the part of the state. In addition, a different style of political leadership is needed from that required for the highly contentious issue of devaluation. Finally, reform of the banking sector is a relatively late reform, done to help the recovering economy accelerate. It is an especially difficult area of reform that requires significant analytic and administrative capabilities. Thus, the three case studies provide a good mixture of reforms in terms of both sequencing and the type of demands they place on the state.

The third part of the paper will evaluate the economic results of Ghana's ERP after seven and a half years. While great strides have been made, it is important to realize the limitations that Ghana and other reform programs in Africa face. Some criticisms of the reform program, especially its effect on the poor, are also examined.

The final part of the paper reviews the relationship between economic reform and political liberalization in Africa. Again, Ghana is particularly interesting in this regard because it has begun to confront the need for decentralized political structures. Indeed, the problem of political decentralization is now especially pertinent because the very factors which enabled the PNDC to institute the difficult reforms in the first place—the willingness to use force and a lack of constituencies which had to be placated—is now hampering government decision-making and the economy as the pace of commercial activity increases.

This problem is important because too many have focused on the ability of regimes to survive "IMF riots" as the key political question in adjustment. Of course, regimes must be able to get prices right if they are to proceed further in reform. However, it is now apparent that most countries can raise prices dramatically without real fear of political challenges, especially if they are politically astute.[4] Rather, the real political challenge of adjustment may be to alter fundamentally the way that the state operates later on in adjustment programs so that true decentralization can come about.

Thus, it is not a question of simply "sustaining" reforms as an adjustment program continues. Rather, reform programs constantly face new challenges which must be overcome if growth is going to continue and to accelerate.

Ghana in Economic Crisis

Ghana began the independence period in a much better economic condition than most African economies. It had a relatively well-developed infrastructure, large amounts of foreign exchange, and a civil service that was generally recognized as one of the best in Africa. It is rather startling to note that in 1957 Ghana had the same per capita income as South Korea. However, in the 25 years after independence, successive governments in Ghana adopted policies which caused the average person to be approximately 20 percent poorer in 1989 than he or she was in 1957. In comparison, South Korea's income increase five-fold.[5]

While other African countries have also declined since independence, the Ghanaian experience stands out for the comprehensiveness with which successive governments pursued economic destruction. Although Ghana had one of the highest per capita income on the continent in the early 1960's, by 1982, it was ranked twenty-first in per capita income out of 44 Africa countries.[6] Even though Ghana has received its share of exogenous shocks, including occasional price decreases for its major exports, domestic policy decisions are primarily responsible for its deterioration vis-á-vis other African countries.

For instance, as discussed below, Ghana has a long history of the government intervening in the foreign exchange market and causing an overvaluation of the currency. The over-valued currency had a dramatic effect on exporters, who were increasingly disadvantaged. In 1970, Ghana was producing 403,000 tons of cocoa; however, by 1982, it was officially producing only 225,000 tons because farmers either smuggled their produce to Ivory Coast, which was offering a much higher price, or chose to let their trees rot.[7] The country's share of the international market went from 33 percent in 1970 to 17 percent in 1980. Overall, the real (after inflation) value of exports in 1980 was only 52 percent of what it had been in 1970, and in 1981 was only 32 percent of what it had been eleven years before.[8] Not surprisingly, the country suffered from continual balance of payments problems.

Indeed, by the early 1980's, there was little reason to question the proposition that Ghana had become a hopeless case. Per capita income, which had been approximately 640 cedis in 1971 had declined by the end of 1981 to approximately 460 cedis in constant terms.[9] Between 1976 and 1982 real Gross Domestic Product per capita decreased by 3.4 percent each year, prices increased at a yearly average of 66.8 percent, and unemployment grew.[10] Every organization in the country, ranging from the government to the private sector to voluntary organizations in the rural areas such as the churches, had essentially ground to a halt because of a lack of resources. It was estimated that two million Ghanaians had simply left the country because of a lack of economic opportunity.[11] Most donors had also given up on Ghana. By 1981, Ghana was receiving only $13.3 dollars per capita in net official development assistance compared to an average of $26.3 dollars for all sub-Saharan countries excluding Nigeria.[12] Ghana had completed the transition from a prospering middle-income developing country with great hopes at independence to a nation suffering from fourth world poverty.

The Second Rawlings Coup

It was in these disastrous conditions that Flt. Lt. Jerry Rawlings initiated his second coup on December 31, 1981, an event known throughout Ghana as Rawlings' second coming.[13] The new Provisional National Defence Council (PNDC), as the group of civilians and army officers who ruled with Rawlings called themselves, then went about proclaiming a revolution but implemented a set of economic policies which did not differ significantly from those of previous governments. For instance, the regime repeatedly noted that it would not devalue the cedi. Instead, in the PNDC's four-year economic program announced in December 1982, it devoted itself to establishing a state monopoly on export-import trade, eliminating corruption in the allocation of import licenses, and trying to re-orient trade away from the West.[14] With a flourish of populist and socialist rhetoric, the government sought to mobilize workers, students, and the rest of the urban population in order, through unspecified policy measures, to bring about radical change in the economy.

While helping urban workers, the Rawlings regime seemed to accentuate the urban bias of previous regimes by imposing controls on the sale and price of food, the major source of income for the seventy per cent of the population that lives in the rural areas.[15]

There were also many attempts to coerce traders into making goods available at controlled prices, sometimes resorting to rather blatant physical force. The regime's continual calls for vigilante action against any one perceived as any enemy of the state led to continual human rights abuses by many the regime had designated, or who had designated themselves, to advance the "revolution."

However, as both the economy and civil society fell apart, it soon became apparent to the regime that it did not have the economic policies to cope with the crisis confronting Ghana. First, the Soviet Union and its Eastern European allies, which the PNDC had hoped would come to the aid of its revolution, told Ghana that they had no money and that the Rawlings regime should negotiate a program with the IMF. Second, soon after Rawlings took power, there was an increasing realization among at least some members of the regime that the socialist/populist slogans they were mouthing really did not add up to anything approaching a coherent economic program. Finally, 1982 was an absolutely disastrous year: the country suffered from a severe drought resulting in a decrease in agricultural production and bushfires damaged a substantial portion of the countryside. Further, Nigeria, suffering from its own problems, expelled approximately one million Ghanaians who had been working in the country illegally. Thus, almost overnight, during the worst economic crisis the country had ever faced, the government had to cope with the influx of an additional 10 per cent of its population desperate to work. During 1982 alone, the per capita income of Ghana had declined from approximately 460 1975 cedis to 440 cedis.[16]

The 1983 Budget Announcement

Finally, after fifteen months of economic failure, the Rawlings government reversed course in April 1983. The April 1983 budget, announced by Finance Secretary Dr. Kwesi Botchwey, suggested a fundamental break with not only the PNDC's previous policies but from the thrust of economic practice over the previous twenty-five years since independence. Dr. Botchwey said that "what is required is a complete overhaul of policy in the areas of incomes, and pricing, including the pricing of foreign exchange. . ."[17] The new budget enacted a substantial devaluation which previous governments had suggested was politically impossible. The new budget also raised prices on a large number of basic foodstuffs, once again putting the PNDC in grave danger.

What needs to be explained here is why the PNDC suddenly changed course and adopted what soon became the most comprehensive economic reform program on the continent. The most basic explanation, and one that is most often suggested for Ghana, is that the PNDC simply had no choice given the state of the economy. Rawlings, in his May 1983 speech, had, in fact, claimed that the recently announced budget was "the only viable option open to us."[18] However, there is a long tradition of Ghanaian leaders proclaiming (correctly) that the economy had hit rock bottom and then doing nothing to reverse the slide. Similarly, in many other countries in Africa (Zaire is perhaps the classic case), scholars and many others have repeatedly said that things could not get any worse and that the government in question would have to take action only to be proven notably wrong. The economy could have become worse in Ghana and the government could have limped by, perhaps with some kind of modified reform program.

While the economic trough that Ghana hit in 1982 demanded some kind of reforms, the mere fact that there was a depression did not automatically mean that the government would start to enact the most comprehensive program of reform on the African continent. Certainly, it was clear to the government that the new budget posed enormous political risks and these fears were quickly borne out by the public demonstrations against the price increases in the days after they were announced. There had not previously been public demonstrations against the PNDC, despite the deteriorating economy. The explanation that the PNDC simply had no other choice is too deterministic and does not take account of the huge political and personal gamble that Rawlings and the rest of the PNDC undertook when they adopted the program.

However, there is an aspect to this argument that is relevant to the Ghanaian experience. As noted below, the economy had collapsed to such an extent that most of the population were essentially paying shadow prices. As early as 1970, Tony Killick had found that only 17 percent of items in stores were priced according to government controls and that 72 percent of the goods actually cost more than they should have.[19] Given the decay that Ghanaian administrative structures underwent after 1970, it is highly likely that even fewer of the controlled prices were being observed by the early 1980's. Thus, the fact that the government raised official prices probably had very little impact on most people. Similarly, given that the black market rate of the cedi was roughly twenty-times higher than the declared rate by the early 1980's, there were very few goods on the shelves of stores (and nothing in the markets) that were priced according to the official rate. Accordingly, the inflationary effect of the devaluation was much less than the nominal magnitude suggests. Finally, because of the economic crisis, most urban workers were forced to take second jobs or otherwise supplement their income, so a decrease in wages or even outright loss of their jobs may not have been quite as significant as it appeared.[20] Thus, the extremely poor state of the economy may have made enacting a stabilization program easier.

A second explanation for the timing of the adjustment decision looks to the political strength of the leader and argues that strong leaders are essential to reform programs.[21] The problem with this kind of argument is that it cannot be falsified given that, in retrospect, it will have to appear that successful adjustment programs were led by leaders with significant political support. However, in the case of Rawlings in 1983, there is very little reason to have believed at the time that he had nearly the support needed not only to enact an adjustment program but to reverse the thrust of economic practice in the country over the previous twenty-five years. Indeed, what is striking was how narrow Rawlings constituency was: some of the military, university students, and some workers. All of these would have to be alienated to some degree if the government was going to adopt an adjustment program which reversed the urban biases of past governments.

However, what Rawlings and those who became his close associates once the economic reform program started did have were fairly well developed political skills. Rawlings had accomplished major political feats just by emerging out of two chaotic coup situations as the unquestioned leader. After December 31, 1981, he had also managed to defeat a significant number of attempts by others to gain power. In addition, there is no doubt that he has his hand on the popular pulse in Ghana as few others leaders have had. Some of his associates have also proven to be politically adept although more than a few have not. As noted below, development of the proper political strategy by astute leaders can often substitute for a well-established political position.

The Rawlings regime's decision to adopt a reform program came at a fortuitous moment, just as the international community was increasing resources to Africa. Indeed, after the World Bank's highly controversial report on African economies in 1981, it needed a success story to justify its new approach and the resources western countries were devoting to economic reform in Africa. Ghana, a notorious basket case but with a new, committed government, fitted the World Bank's requirement for an exemplary case. The World Bank's need for a success story did not mean that the conditionality requirements were eased for Ghana; indeed, many PNDC officials are still bitter about the World Bank's lack of faith in their commitment to reform in the years immediately after 1983. Also, the IMF did not particularly need a success story and its conditionality programs were, as usual, quite difficult for a country like Ghana to adopt. However, Ghana could be assured that if it made the required reforms, large amounts of funds from international donors would be available.

The intellectual and financial resources provided by the World Bank and the IMF had a profound impact on domestic Ghanaian politics. First, the fact that those favoring stabilization and adjustment could point to real resources that were available strengthened their own positions considerably. Ghanaian officials report that a considerable portion of the initial stabilization program that they adopted had been on the shelf for some time as senior civil servants had long ago diagnosed the major problems in the economy. The multilateral organizations were crucial in providing support so that these officials could forcefully advocate within the government the policies that they had designed. At the same time, the fact that the Ghanaians could argue that at least part of their reform program was indigenously developed may have helped somewhat in adopting the IMF's bitter medicine.

Second, Bank and Fund officials were critical in providing much of the administrative and analytical resources necessary to make the program work, especially given that the Ghanaian state had all but collapsed. As Dr. Joseph Abbey, a key economic decision-maker and now Ghana's High Commissioner to the UK, noted, "a critical element that facilitated the success of the adjustment program was the very close and fruitful, even if at times acrimonious, dialogue that was established with successive [IMF] missions."[22] While there are many problems with the public diplomacy of the World Bank and the IMF, the provision of technical expertise was absolutely crucial to the adoption of the Ghanaian program.

Exchange Rate Reform

Ghana's history of exchange rate problems began with economic crises in the early 1970's. In response to a declining economic position, the government of Prime Minister K.A. Busia announced in December 1971 a surprise devaluation of 78 percent, thereby reducing the value of the cedi from 1.02 to the dollar to 1.82 to the dollar. The devaluation was quickly followed by a coup led by Colonel I.K. Acheampong, and the military government that followed revalued the cedi back up to 1.28 to the dollar in February 1972.[23] In the ensuing years, the exchange rate was largely held steady while Ghana experienced considerable inflation resulting in the rapid overvaluation of the cedi. In 1972, the black market rate for the cedi was 22 percent greater than the nominal rate. By 1976, when the cedi was nominally valued at 1.15 cedis to the dollar, the black market rate was at 2.9 cedis to the dollar (252 percent over the official rate). By 1982, the cedi had only fallen to 2.75 to the dollar, but the black market was at an incredible 61.6 cedis to the dollar (an overvaluation of 2,242 percent).[24]

There were several reasons why successive Ghanaian governments were unable to reform the exchange rate even though there was widespread agreement among senior civil servants and many government officials that the severe overvaluation of the cedi was seriously hurting the country. First, the system of administrative allocation of foreign exchange was extremely useful in rewarding clients because in a climate of ever-greater scarcity, the allocation of an import license was a powerful means of developing and retaining constituencies.[25]

Second, there was a widespread belief among the urban population, the chief consumers of imported goods, that they actually benefitted from an overvalued exchange rate and would be hurt by any kind of devaluation. One contribution to the Ghanaian debate concerning devaluation in 1982 (tellingly titled "The Revolution or the IMF") argued, "it is also important to point out that whenever there is a devaluation of the currency the ordinary people are those who suffer most from the resultant price increases, unemployment, and cuts in social services."[26]

Third, there developed in Ghana a powerful psychological attachment to the idea of a "strong" (that is, overvalued) cedi. This idea is not easy to describe, but the concept of a "strong" currency came to appeal to many elements of the polity. In part, the need to have a "strong" cedi was tied to the desire of many Ghanaians, who had seen their once proud country decline into bankruptcy, to recapture some of the nationalistic spirit of the past by confronting international financial institutions. For the leadership, the attachment to a "strong" cedi manifested itself in an association that developed between devaluations and coups after Acheampong overthrew Busia.[27] Finally, devaluation does require a leap of faith by the national leadership because while the deleterious effects (e.g., higher prices for imports) are guaranteed to be immediate, the beneficial effects—increased production by exporters who receive better prices for their goods—will take some time and are always viewed as somewhat tenuous by African leaders well aware of the weaknesses in their country's infrastructure and private sectors.[28]

The Politics of Radical Economic Change

The drastic reforms in the exchange rate regime that the Rawlings government have carried out are, therefore, particularly important. The fundamental problem that government leaders and civil servants faced was that they needed to break the psychology of the country that accorded such an important place to a "strong" cedi both for the continuing welfare of a large part of the urban population and for government survival. In order to subvert the mass psychology, the first thing that the government did in late 1982 was to raise the price of imported food—until then artificially cheap because of the exchange rate—so that it was equal to the price of locally produced food. Government officials explain that this was done in order to break at least some of the psychological dependence on imported goods and try to demonstrate to the population how imported foods were hurting peasant growers.[29]

The new government then moved dramatically to address the overvalued exchange rate and a host of other problems in the 1983 budget that was announced in April. The key step that the government took was to impose a system of bonuses for exporters and surcharges for importers which lowered the effective value of the cedi from 2.75 to the dollar to 25 to the dollar. Petrol was initially assigned a lower surcharge so there was effectively another exchange rate for fuel imports.[30] It was hoped that this initial devaluation would at least return the economy's competitiveness to the level it had achieved in 1978, after the last exchange rate adjustment.[31]

In general, the IMF and the World Bank oppose surcharge and bonus systems which amount to a multiple exchange rate because they can be extremely difficult to manage and may delay the adoption of a correctly valued exchange rate. However, Ghanaian officials argued that given the political realities of the country, they simply could not announce an outright devaluation. The multiple exchange rate, they argued, enabled them to begin to address the exchange rate problem while suggesting to the population that they had not just simply capitulated to the IMF and adopted a devaluation. Thus, Mrs. Aanaa Enin, a PNDC member, could assure Ghanaians that, "the government has not devalued the cedi but had rather readjusted it to meet the economic conditions of the times."[32] Many civil servants argue that the multiple-tier exchange rate was also important because a substantial portion of the political leadership was against devaluation and they therefore needed to adopt a strategy which would not be called "devaluation" outright. This attempt to forge common ground was a particularly important consideration because the PNDC—a group of military and civilian officials who ranged in ideology from those who were known as "Nkrumah's children" to firm believers in the IMF's basic analysis—was by no means united around reform. The multiple exchange rate system therefore gave the different factions of the PNDC a common place to meet without any group having to admit total defeat.

Of course, most Ghanaians realized immediately that imports would be more expensive and the 1983 budget, which also raised prices on a host of consumer goods, was widely denounced by the government's erstwhile constituencies. For instance, the General Transport and Chemical Workers called the budget "anti-people, a killer, callous and inhuman."[33] The Trade Union Congress (TUC) later protested Ghana's,

> submission to the dictates of the IMF and the World Bank and urged it to wrestle the country's economy from the grip of these financial institutions. As a result of these IMF conditions, working people in Ghana now face unbearable living conditions which manifest themselves in poor nutrition, high prices of goods and services. . . .[34]

There were also widespread protests by students and other urban dwellers who were severely affected by the government's policies.

Despite the protests, the government was able to implement the system of bonuses and surcharges. In part, of course, this was because people knew that Rawlings, who had executed three former leaders of the country when he had seized power briefly in 1979, was willing to use force to get his program through. As Professor A. Adu Boahen noted in his courageous Danquah lectures, "We have not protested or staged riots not because we trust the PNDC but because we fear the PNDC! We are afraid of being detained, liquidated, or dragged before the CVC [Citizens' Vetting Committees] or NIC [National Investigations Committee], or being subjected to all sorts of molestation."[35]

The willingness to use force was, however, combined with the legitimacy that Rawlings had achieved from his "housecleaning" in 1979 and the support he had gained personally. As one official explained to me in Accra,

> The PNDC regime had a comparative advantage in making reforms just like Nixon had a comparative advantage in going to China. It is a populist regime. People believe that Rawlings is for them. He convinced them that nothing else is possible and they believed that it must be true. A professor from Legon or a rich businessman would not have been able to get away with devaluation.

Therefore, it was not simply a question in Ghana of a government that was prepared to use force to implement a policy; after all, other governments in Ghana had no hesitation about locking up people. Rather, the Ghanaian government succeeded in part because it was able to use a particularly effective combination of coercion and legitimacy to deter outright opposition.

Further, there is some evidence that the multiple exchange rate system did work to alleviate some of the psychological disposition against devaluation. Thus, the TUC argued in 1988 that a system of bonuses and surcharges, "is better than the traditional devaluation, which does not discriminate in its scope and level."[36] Actually, there were very few exemptions in the system of bonuses and surcharges that the government announced in 1983, but the fact that it left the government with some opportunity to intervene in the economy seems to have been important.

The Ghanaian government may also have faced less popular opposition than it expected because, given the gross overvaluation of the cedi, there were very few goods on the shelves of stores (and nothing in the markets) that were priced according to the official rate. In retrospect, government officials are quite confident that more worker protest against the budget announcement and subsequent reforms did not emerge because most of the society was already paying shadow prices for the goods.

The PNDC regime quickly moved to consolidate its exchange rate reforms by unifying the import and export rates at 30 cedis to the dollar in October 1983. Thus, in five months the cedi had undergone a nominal devaluation of 1,090 percent. The government then linked the exchange rate to an index of the difference of the inflation rate between Ghana and its major partners. Between October 1983 and January 1986, the government announced periodic devaluations of the currency, sometimes considerably more than was called for by its own formula, so that by the beginning of 1986 one U.S. dollar was equivalent to 90 cedis.[37] According to government officials, the PNDC repeatedly "tested the waters" to see how large of a devaluation it could get away with at any given time.

Deflecting Political Pressure

The government carried out these devaluations at a considerable political cost. The workers had become largely alienated, in good part because each newspaper that carried news of the latest devaluation also reported that petrol and other commodities were increasing in price because of the new exchange rate.[38] In a remarkable statement for a country that still suffers from what Rawlings calls "the culture of silence," A.K. Yankey, head of the TUC, said in late 1985, "workers out of frustration would be forced by their human instinct of survival to rise up against the Government since it cannot ensure them their survival."[39] The students were also largely alienated from the PNDC, and the universities had to be shut for a considerable period of time because of student protests.

Perhaps most important, by early 1986, senior government officials were beginning to voice, in public, serious concerns about the political implications of continued exchange rate reform. In a bold challenge to government policy, Lt. Col (ret.) J.Y. Assasie, who was at that time Political Counsellor for the Economic Development of the Committees for the Defence of the Revolution (as the WDC's and PDC's had been renamed), said,

> We are of the view that the burdens that tend to flow from currency adjustments fall disproportionately heavily on the deprived and poorer sections of community without adequate and corresponding compensatory benefits. This sector of our society is the constituency of the Revolution which must not be unnecessarily burdened in the pursuit of growth.[40]

By 1986, government officials admitted that they faced too much popular pressure to simply continue the practice of administrative announcements of devaluations. There was also some unhappiness expressed by government officials that the process of setting rates administratively that Ghana had followed, which involved the Ministry of Finance, the Bank of Ghana, and the PNDC, was far too cumbersome to continue indefinitely.

Faced with these problems, the government decided to institute a foreign exchange auction which constituted a "second window" for foreign exchange allocation. As Dr. Botchwey noted, the auction tended to "depoliticize" currency adjustments because the government could plausibly deny that it was responsible for further devaluations and just blame it on the market.[41] Ghanaian officials report that they opted for an auction, instead of an interbank market, in part because of the perceived weakness of the commercial banking system.[42]

In the first week, the value of the cedi decreased by almost 42 percent to 128 cedis to the dollar. The government soon confirmed its commitment to the auction by closing the first foreign exchange window so that the auction became the sole means of foreign exchange allocation in the country.

The PNDC did make a strong effort to try to educate people to the dangers of the previous economic policies and to demonstrate how the new program of economic reform would eventually help them. For instance, Dr. Botchwey criticized the previous governments' policies of overvaluing the cedi in his 1983 budget speech, "The real losers in this exchange rate policy are of course the working people, the underprivileged who have no access to foreign exchange. . ."[43] The government further stressed its commitment to help those who had been hurt by the economic reform program by adopting the most ambitious program on the continent to alleviate the social costs of adjustment. The Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) will not by any means reverse the significant changes that devaluation has brought about, but the food-for-work and redeployment efforts are a signal to the population that the government understands the deprivations that the population has been forced to undergo. In its justification of PAMSCAD, the PNDC specifically noted that the program would contribute to the sustainability of the economic reform program by showing that the government cared about the harmful aspects of structural adjustment and that it was not a simple pawn of the IMF.[44] There is no evidence that these efforts to educate the public about the dangers of overvaluation and to show that the government cared about the population were successful in generating support for the devaluation program, but they may have dampened outright efforts to oppose the economic reform program. A Bank of Ghana official claimed, for instance, that the intensive education efforts produced a "resigned acceptance" to the devaluation program.

In February 1988 the government embarked on further liberalization of the exchange rate by allowing the establishment of foreign exchange bureaus. These bureaus, which are privately owned, are allowed to trade openly in foreign exchange with no questions asked of either Ghanaians or foreigners who want to buy or sell foreign exchange. The creation of the bureaus led to a further decline of the cedi to approximately 350 to the dollar by mid-1990. Thus, Ghana has undergone a nominal devaluation of 13,000 percent and a real devaluation, I estimate, of approximately 1,300 percent. Beyond the staggering magnitudes of the reforms, the establishment of the bureaus was an extraordinary step because it marked the abandonment of the old system where the government had allocated all foreign exchange in favor of one where the foreign exchange rate was either determined by auction, for a limited number of goods, or by a competitive free market. Government officials report that they took this radical step because they recognized that there was a flourishing market for foreign exchange outside of official government channels and decided that they would be better off legalizing it and trying to understand the market rather than continuing to ignore a substantial part of the economy.

Ghana's Real Devaluation

The Ghanaian case suggests that in an effort to catalogue the weaknesses of the African state, many often mistakenly assume that simply because African states are institutionally weak, they lack the necessary autonomy to make basic decisions about the rules governing institutional allocations. However, as in the case of Ghana, states can still make certain decisions about basic economic institutions, such as the exchange rate, no matter what the condition of their administrative apparatus. Exchange rate reforms, which are really little more than pronouncements, do not require significant administrative experience, especially if the country is liberalizing. Indeed, the move to free markets by Ghana actually lessened the administrative duties of the state, once the multiple tier exchange rate system had been abolished, because the government could eliminate an entire part of the Ministry of Trade which had previously undertaken the onerous task of deciding who would get an import license.

The development of a viable political strategy also does not require particularly well-established administrative and institutional capabilities. The strategy that was used to implement the exchange rate reform in Ghana did not take more than a few high-ranking officials and civil servants to develop. This is why an appropriate political strategy can, to some degree, substitute for the strong leaders and well-developed institutional capabilities that are usually associated with successful economic reform.

The primary lesson for future reformers to be gained from the Ghanaian experience in terms of strategy is that the World Bank, the IMF, and bi-lateral donors have to allow countries more leeway in formulating structural adjustment programs so that they are politically viable. The World Bank and the Fund have developed a powerful analysis of what has gone wrong economically with African countries, but this economic analysis does not have a corresponding political logic. Instead, the Bank and the Fund along with bi-lateral donors have simply advocated adopting programs as quickly as possible. In the case of the exchange rate, they have argued for shock devaluations and moving as rapidly as possible toward a floating rate because this strategy would limit speculation. However, it is precisely the kind of shock devaluation that the Bank and Fund's economic analysis demands that would have probably fallen victim to the psychosis of devaluation that had such a grip on the Ghanaian polity. It was important that the Ghanaians embark on the transition step of multiple exchange rates, although the Bank and Fund correctly argue that these are less than optimal strategies to promote economic growth, in order that devaluation be politically viable. Thus, Ghana was a success in good part because, while the Bank and the Fund provided the economic logic and a substantial amount of the resources for reform, the Ghanaians themselves developed the political logic to bring about radical changes in the exchange rate.

A well-developed political strategy for economic reform does not guarantee successful adjustment. In Ghana and other African countries, there are too many other factors at work to make such a simplistic association. However, an appreciation of the local circumstances inhibiting reform and development of an appropriate strategy will allow a government to take advantage of favorable circumstances (e.g., inflows of aid, previous economic decline) to implement politically contentious reforms. At the same time, governments armed with a political strategy may be able to cope with hostile external developments and difficult local circumstances when implementing a structural adjustment program.

Reform and Privatization of State-Owned Corporations

Like many other countries in Africa, the Ghanaian state expanded dramatically after independence. A significant portion of this expansion was due to efforts to provide greater services (e.g., health, education) to the population and to flesh-out the weak colonial state that Nkrumah and other African nationalists had inherited. Part of this expansion was also due to an enormous increase in state-owned enterprises (SOE's). During the colonial period, several important SOE's had been created, notably the Cocoa Marketing Board and the Industrial Development Corporation. However, it was after independence that the boom in state enterprises fully took-off. The Nkrumah government established an enormous number of SOE's ranging from the Timber, Food, and Diamond Marketing Boards to the Black Star Shipping Line to the Ghana Sanyo Electrical Manufacturing Company.[45] By the early 1960's there were more than one hundred parastatals in Ghana. This boom in state enterprises paralleled the experience of other African countries which, irrespective of ideology, were expanding their parastatals.

Due to the political and economic convenience of SOE's, by the early 1980's, Ghana had a total of 235 state enterprises, of which the government had a majority holding in 181.[46] Incomplete data suggest that, by 1980, Ghana's SOE's may have accounted for approximately 50 percent of the formal labor force, compared to the African average of 19 percent.[47]

Not surprisingly, because so many SOE's had been created for primarily political reasons, they performed particularly poorly as commercial enterprises. For instance, between 1980 and 1982, Ghanaian public enterprises had deficits which totaled between .2 and 3.3 per cent of Gross Domestic Product.[48] In 1982 alone, SOE's received approximately 13 percent of total government expenditure in the form of subsidies, equity contributions, and capital grants, and by 1984 this figure had almost doubled to 25 percent of total government expenditures.[49] In the felicitous phrasing of the head of Ghana's State Enterprise Commission, "public enterprises in Ghana have succeeded to combine public sector inefficiency and stagnation with private sector insensitivity to the public interest."[50]

The PNDC has, therefore, announced a program to privatize some of the SOE's. Initially, forty-eight of the state-owned companies have been put up for sale. The PNDC has also declared that eighteen of the companies in the state sector (e g., Ghana Airways, the electrical utility) perform vital functions and will not be privatized. The other 169 companies are not currently up for sale, but the government has announced that it will entertain serious offers.

There is a history of reform and privatization of SOE's in Ghana. The military officers who overthrew Nkrumah in 1965 expressed their desire to scale back many of the companies Ghana's first leader had established. However, the coup leaders' attitudes began to change rapidly once in power. In the end, of the forty-six industrial and commercial and state enterprises established by Nkrumah, only seven were offered for sale, while private participation was sought for eleven others that would continue to be owned by the state. Of the seven put up for sale, only three were of significant size. In the end, only three state enterprises were sold, and private participation was increased in four others.[51]

However, even this extremely limited sell-off of state enterprises created great controversy in Ghana and established an important precedent that successive governments would have to cope with. The National Liberation Council was attacked for its limited efforts to sell state enterprises because many believed that the government was getting extremely low value for the state's assets. At a more general level, the sale of the state enterprises, which had been portrayed by the previous regime as an important way of gaining the commanding heights of the economy, struck many Ghanaians as not only an improper political step but a retreat from the pursuit of economic sovereignty. The legacy of mistrust is one which the PNDC has had to confront when trying to reform the public sector.

Given the fiscal drain that the SOE's have caused, it is not surprising that privatization and SOE reform are high on Ghana's economic reform agenda. However, it is crucial to note that the motivation for reform comes not from some kind of fundamental rethinking about the state's role in the economy but because of more immediate fiscal and efficiency concerns. As the PNDC has noted, "A substantial part of Central Government expenditures have included transfers to cover losses of public corporations by way of subventions. . . To check this enormous drain Government has undertaken a major review of the public sector and intends to reduce the burden on itself of such public corporations by divesting itself, wholly or partly, of some of these corporations. . ."[52] Similarly, the World Bank first began to promote SOE reform because of the drain these companies were placing on governments and because they were not performing their stated function.[53] Contrary to what critics of the Bank suggest, privatization is not the cutting edge of a grand project to implement a fundamentally different vision of what the state should be doing. Rather, it is something of an ad hoc response to the fiscal problems of the African state.

Privatization by itself is not a guide to the proper future outline of the African state because privatization is not going to significantly change the economic landscape of Ghana or the rest of Africa in the short or medium-term. First, the anti-private sector policies that successive Ghanaian governments followed for 20 years prior to the early 1980's have meant that there are very few Ghanaians with the capital and the management skills to acquire significant public enterprises. Of those that have the capital and skills, many are Lebanese who are politically unacceptable to the government. Further, there is strong sentiment against selling SOE's because of past abuses. As the *Daily Graphic* noted,

> Privatization is a loaded word. It conjures up in some minds past experiences where state-owned businesses were disposed of cheaply behind closed doors to favored cronies. It also raises visions of exploitative rich businessmen taking over and kicking helpless workers into the street to face unemployment.[54]

Second, it is doubtful if many of the companies that the government most wants to sell are viable. The SOE's that the Rawlings government initially singled out for privatization owed millions of dollars in back taxes and contributions to unfunded pension schemes, their physical plants were run-down, and many had almost no managerial capacity. In the end, it is likely that many of these companies will have to be shut down and their assets sold for scrap. For instance, one recent privatization in Ghana was no more than the sale of machinery from a defunct factory.

Indeed, officials at the State Enterprise Commission envision that perhaps the major way that the SOE's will be privatized is by simply letting them go out of business and selling the machinery and physical plant for scrap value. These officials report that the State Enterprise Commission estimates that it is just too risky to invest the funds necessary to make many of the companies attractive to investors. Further, the Rawlings government may simply be unwilling to take the tough measures necessary to make a company ready for privatization. As one official noted,

> Government companies are grossly overstaffed. We need thinner, leaner kinds of structures. However, where do we put the staff? We are constrained by government social policy. We do not want to embarrass the government by putting people on the street. There is a conflict between economic and social goals.

The only companies that, at least for the moment, will be privatized and still be going concerns are those that already have a minority foreign owner. In these cases, the government is simply selling enough equity so that the foreign owner becomes the majority shareholder. It is doubtful that much will actually change in these companies because the foreign owner usually had managerial responsibility. However, the total number of companies which have foreign owners is extremely limited.

Thus, even with privatization, employment of SOE's as a percentage of the labor market is expected to increase from 3.31 percent in 1990 to 3.46 percent in 1995.[55] The rhetoric of privatization and market forces should not be allowed to obscure the reality of state-owned enterprises in Ghana and other African countries: these companies were barely functioning in the state sector, and their privatization will be a torturous affair which will not significantly alter the economic landscape.

The surest sign that the privatization movement is not, by itself, an indication of where the state should end is the fact that most of the actual effort going into reforms of state-owned enterprises is to upgrade these companies rather than to sell them off. In Ghana, far more money and effort, though not publicity, has been spent on reforming such vital state enterprises as the State Electrical Corporation than has been devoted to all the efforts to privatize. More generally, across Africa, the World Bank has spent far more money in reforming state enterprises than in privatizing them.[56] Privatization then, while a partial answer to the fiscal problems of the African state, cannot be seen as providing much of an indication of what the state should actually do or not do in Africa.

It is unclear how far reform of the eighteen companies the state wants to keep has advanced. The State Enterprise Commission has signed performance contracts specifying operating parameters with fourteen of the firms and hopes to complete negotiations with the others soon. However, the SEC will not comment on how stringent these performance contracts are. Similarly, the SEC has no data yet on actual improvement in the operations of most of the SOE's that will remain in the state sector. Certainly, the Cocoa Board has improved its operations significantly but other firms are probably lagging behind. Of course, the fact that many of these firms are monopolies makes commercial evaluation of their operations even more difficult.

The efforts to promote reform and privatization of the SOE's have also run into significant problems because of the government's unwillingness to devolve political authority and decision-making. For instance, government officials report that an effective barrier has still not been established between ministries and the SOE's themselves. Government leaders can still impose non-commercial demands on the companies. Indeed, there are reports that the parastatals are having trouble attracting qualified managers because skilled Ghanaians do not want to enter companies where politics plays such an important part.

Similarly, government efforts to privatize have been held up by the centralized nature of the government. The Divestiture Implementation Committee (DIC) had formerly been part of the State Enterprise Commission and was seen as a largely ineffectual unit. The Committee was perceived as not being powerful enough and was not able to promote privatization forcefully. The DIC was therefore hived off and placed under the leadership of senior PNDC officials. The idea was that the DIC could then make the vast majority of decisions on privatization without having to consult the PNDC itself. However, in practice, all issues of privatization are still referred to the PNDC where applications often languish. It appears that the leadership still views privatization as too sensitive an issue to leave to lower-ranking officials. This problem is aggravated by the fact that the PNDC has not developed a vision of the economic frontiers of the state which would allow lower-ranking officials to proceed on the privatization issue. Rather, privatization is approached reluctantly, as a fiscal measure rather than a means of restructuring the state.

Reform and privatization of state-owned enterprises is a classic example of the kind of difficult measures that governments confront once they move beyond the stabilization phase. The elimination of distortions in domestic prices and the exchange rate allows policymakers to see clearly the underlying problems of the economy that had previously been hidden. However, addressing these new problems can be more difficult than implementing the initial stabilization measures. Thus, reform and privatization of SOE's are particularly difficult because there is no easy set of principles corresponding to "get prices right" for the exchange rate and internal prices. Rather, reform and privatization of SOE's takes a significant amount of administrative and analytic ability in order to understand what is wrong with each firm and to devise some sort of response. Unfortunately, countries such as Ghana are extremely weak in analysis and administrative capabilities and will remain so for the foreseeable future.

Reform of the public sector is also hindered by the political style of the PNDC. The fact that the PNDC was a small, tightly organized group that could shed constituencies without fear was a major advantage when it confronted the difficult issues of exchange rate reform and other aspects of stabilization. However, now that the country has moved beyond stabilization, this type of leadership style becomes a significant disadvantage. The highly centralized nature of the leadership has inhibited reform of the SOE's by slowing the transformation of these concerns into firms driven largely by commercial considerations. Privatization has also been hindered by the need for top policymakers to be involved in every aspect of the program despite nominal efforts to decentralize the process.

Banking Reform

The banking sector in Ghana presents a formidable obstacle to further growth. In particular, problems in the credit market have made it extremely difficult for firms to raise capital to expand in response to the new productive environment that the PNDC has established. At a more general level, the banking sector is interesting because it exemplifies the extremely difficult reforms that governments face once they go beyond stabilization and begin to try to reform fundamental economic structures.

The financial sector of the Ghanian economy is extremely shallow. There is no capital market or stock exchange. Banks must supply all the capital for companies wishing to expand. There are two private banks (Barclays and Standard Chartered) and six state-owned banks. All the banks have a significant number of non-performing loans because of the dramatic changes in the economy since 1983. For instance, there were some businessmen who took out foreign-denominated loans when the cedi was 90 to one dollar. Now the cedi is 350 to the dollar and these businesses, especially if they are not in the exporting sector, are facing an extremely difficult repayment schedule. Further, the state-owned banks were until recently saddled with an extremely large number of loans to SOE's who could not service their debts. The fact that the SOE's could not pay meant that the banks could not recycle their loans, and much of their credit was therefore locked up. This is an extremely common problem in many African countries. As Peter Nicholas noted, "The most difficult aspect of financial market and banking sector reforms has been ensuring an orderly transition for banking systems saddled with many non-performing loans, sometimes of public enterprises, and liberalizing previously controlled lending and deposit rates.[57]

The problems of the banking sector are important to highlight because many in Ghana have complained that tight credit is a major barrier to expansion. For instance, the Ghana National Chamber of Commerce noted in a memorandum on the budget,

> As we have stated often times recently, the greatest problem facing the Ghanaian businessman is low liquidity or the lack of it. . .it has become increasingly difficult to obtain overdraft and credit facilities from the country's commercial banks as these banks have resorted to collecting previous loans more than granting new credit. . . A lot of businesses are now faced with acute shortage of working capital, and we are of the view that if the wheels of the economy are to be kept moving, businesses including industry and commerce should not be strangled to death.[58]

Similarly, John Richardson, President of the Association of Ghana Industries noted,

> Perhaps the most serious problem facing Ghanaian industry today is the problem of liquidity. It has been with us since the early days of the ERP. It has hardened in character over the past 6 years. . . .Our experience has been that as a result of several years of decline in productive activity, industrial establishments have been singularly ill-equipped to generate enough capital to meet their day to day operational requirements.[59]

Indeed, almost all businessmen will state that tight credit is the most formidable obstacle they face to expanding or, in many cases, to continued existence.

It is important to note that the banks, especially the private ones, have a very different perspective on the credit problems of companies. Bankers fervently deny that there is any real credit problem for those who have going concerns. Rather, they argue that most of the Ghanaian private sector is essentially bankrupt and is made up of poor credit risks. Indeed, it is true that much of the private sector is corrupt and built upon the distortions of the 1960's and 1970's. Clearly many of these companies will simply have to go out of business in order for the Ghanaian economy to adjust to the new incentives that the government has established.

However, given that the entire private sector is adamant on the credit problem, it is likely that credit does pose an important constraint to further operations. Unfortunately, it is not possible to investigate empirically the extent of the problem, because whether a company is credit worthy in the highly uncertain Ghanaian economy is essentially a value judgment.

The Ghanaian government has taken certain steps to begin reform of the banking sector. Most importantly, it has essentially written off the non-performing debts of the SOE's by giving the banks government bonds in exchange for their paper. The government has also done much of the groundwork for the establishment of a stock market and hopes to have the market on line by December 1990. Of course, in the early years the Ghanaian stock market will not be a very important institution, but over the next few decades it could become absolutely crucial to the economy. The stock market will play a particularly important role in deepening the capital market because firms will no longer have to look only to the banks for capital.

However, there is still far more that has to be done if the financial sector is going to be liberalized so that the economy can continue to grow. Private sector access to capital markets is a particularly important issue. Government officials such as Dr. Joseph Abbey speak of some type of "corporate PAMSCAD," but they admit that they are unsure of what to do. Indeed, although everyone agrees that reform of the financial sector is probably the major problem facing the Ghanaian economy, there is great uncertainty about what should be done. The World Bank and the International Monetary Fund do not seem to have been particularly helpful to the government so far, and it is unclear if the multilaterals can provide more help in the future. The basic problem is that the multilaterals do not have a firm view of how African economies should operate once they are forced to go beyond "getting prices right."

Once again, the banking sector demonstrates the difficulties that African governments face once they progress beyond the stabilization phase. It is not merely a question in Ghana, or elsewhere in Africa, of sustaining the reforms that were initially adopted. Rather, governments face new challenges all the time to continuing their growth so that personal consumption levels can be further increased. Unfortunately, reforms such as the liberalization of the banking sector involve very difficult problems which require vast amounts of information, analysis, and administrative talent, all of which are lacking in Ghana and other African countries. Of course, when reforming the banking sector, it is absolutely crucial that the PNDC begin to devolve decision-making powers so that the many facets of this problem can be addressed without involving the leadership in the minutia of the reforms. Whether the Rawlings government will be able to undertake such a drastic change in the style of its operations is unclear.

Overall Economic Effects

It is important to understand just what has happened over the last few years in Ghana because the polemics of both the proponents and opponents of structural adjustment tend to obscure a more complex reality. At the most general level, the economy between 1983 and 1990 grew at an average rate of approximately 6 per cent. This is a spectacular performance considering that the rest of the continent (excluding Nigeria) grew by only 2.3 per cent a year between 1980 and 1987.[60] However, these growth statistics should be taken in context. The chart indicates that, while there has been an increase in the real per capita income of Ghanaians, this increase only returns the country to where it had been in 1981. The average Ghanaian's income was approximately 140 per cent higher in 1971 than it was in 1989. Indeed, it will take many years of high economic growth just for the economy to get back to where it was in 1957.

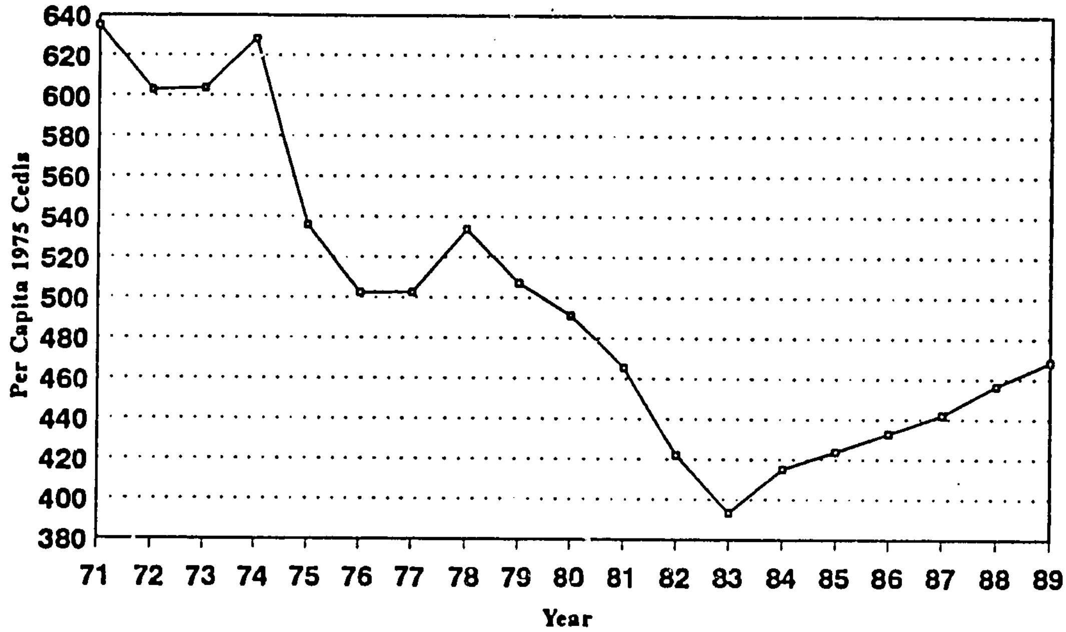
There is a good argument to be made that for the Ghanaian economy six percent growth simply is not good enough. Three percentages points of that growth is taken up by population growth. Approximately one and one-half percentage points should be saved if the economy is going to fund enough investment to grow in the future. This means that personal consumption probably can only increase by one and one-half percentage points each year. At this rate, it will take a decade or more for Ghana to get back to the consumption levels of the early 1970's, which were hardly impressive. Thus, while Ghana is viewed as a success, many people on the ground will only slowly begin to receive the benefits of the reforms. To its credit, the government has repeatedly stated that it is aware of the low consumption levels and tries to reduce expectations concerning future gains. For instance, Flt. Lt. Rawlings has stated repeatedly that, despite the international acclaim for the ERP,

> Notwithstanding the vast improvement in the supply of goods and services in the markets today, there are many who have found it difficult during the past holiday season to manage a modest celebration with a chicken for a meal.[61]

In an interview, Dr. Joseph Abbey suggested that the PNDC is well aware of the rather grim arithmetic and believes that ten percent growth will be necessary if personal consumption levels are to increase at a rate which they view as acceptable. Thus, while Ghana has achieved considerable success at six percent a year, even this performance should be seen as inadequate to some degree. Also, it should be clear just how long Ghana, and other countries, will have to be involved in structural adjustment programs before citizens see significant benefits.

Therefore, while the Ghanaian economy has grown well over the last few years, most of that growth has gone to erasing the decline that occurred in the late 1970s and early 1980s. This is taken by some critics to mean that Ghana's experience is somehow less

Real Per Capita Income



Source: Kodwo Ewusi, *Statistical Tables on the Economy of Ghana, 1950-1985* (Legon: Institute of Statistical, Social and Economic Research, 1986).

Ghana, *Towards a New Dynamism* (Legon: Government Printer, 1989).

significant than it is otherwise portrayed. However, it is difficult to imagine how the Ghanaiain economy could have done any better over the past few years. Ghana did not have the physical or human infrastructure to achieve the admirable levels of growth of the newly industrializing countries in Asia. The most realistic evaluation of the Ghanaian experience since 1983 is that there has been a moderate improvement in the economy and that crucial work has been done in creating a foundation for sound economic growth.

Effect on the Poor

There has been a significant amount of criticism that adjustment programs such as the ERP hurt the poorest. The obvious response to these recent critics is to say that, first, World Bank programs as a whole are a poverty alleviation program because, unless economic growth occurs, there is simply no way that poverty can be alleviated on a systematic basis. In particular, economic growth in the rural sector—where most of the poor in Africa live—is absolutely crucial to any kind of poverty alleviation program. Thus, one study found that 80 percent of the poor and almost of all the poorest are in the rural areas outside of Accra.[62] Better prices for farmers and improved agrarian services—the very heart of most orthodox economic programs—are far better poverty alleviation measures than government-provided social services in the vast majority of African countries.

Also, the discussion of adjustment hurting the "poorest" fundamentally confuses issues of poverty in Africa. As Dr. Abbey noted in an interview,

> People who live in rich countries see poverty as pathological which can be solved through policies. Those who object to people living in cardboard houses in rich countries come to Africa and think that they are seeing the same thing when they see people living in cardboard. This tends to put problems of redistribution at center of political debate rather than questions of production.

In fact, almost everyone in Ghana, and almost all other African countries, is poor on any objective basis. Therefore, the fact that adjustment programs may not always benefit the absolutely poorest should have far less policy and moral implications than if there were a similarly discriminatory aspect in a rich country. If adjustment programs help a significant number of people, then inevitably a large number of poor people will be helped.

In truth, government sponsored poverty alleviation programs seldom, if ever, affect the truly poor, especially in Africa where governments' administrative infrastructure outside the major cities may be weak to altogether absent. In fact, PAMSCAD has been bedeviled by a huge number of administrative problems since it was first proposed in 1988. Indeed, a program such as PAMSCAD, which requires literally hundreds of administrative systems in the rural areas, is precisely the kind of program that a government in a country such as Ghana finds most difficult to implement. It is for this reason that PAMSCAD will, to a great extent, always be an add on to the economic reform program. In addition, almost inevitably due to the administrative requirements and political pressure, money for programs to help the poor is used for political purposes. For instance, much of the PAMSCAD money has actually been used to help alleviate the government's political problems by providing disgruntled Ghanaians with sidepayments. Thus, Danieh Koomson wrote, "Even though not an adequate response to the poverty question, it [PAMSCAD] demonstrates a political will to meet the question some way at least."[63]

More generally, PAMSCAD resources will be directed to areas where the state already has a relatively strong administrative apparatus; that is, precisely the areas that have traditionally benefitted from government programs. In contrast, putting money directly in the hands of the rural poor by making the economic activities they engage in more rewarding will do far more for them than whatever government programs can be adopted by African states, which are usually highly unorganized at the rural level.

It is also important to recognize that elimination of distortions in an economy can also have a beneficial impact on the poor. For instance, because almost all basic goods had to be purchased on the black market in Ghana by the early 1980's, the poor were probably paying above the market clearing price. The black market price includes a risk premium and a rent component derived by those with privileged access to goods. Liberalization of price controls may therefore have actually eased poor peoples' access to goods, a fact obscured by official inflation figures, which primarily examine controlled prices.[64]

Dependence on Aid

A more significant criticism of the Ghanaian experience has been that it has been driven mainly by World Bank and other donor aid. Such aid has been an important part of the structural adjustment program since 1983, and foreign savings as a share of GDP are expected to rise from 4.4 per cent in 1988 to 7.7 percent between 1989 and 1991.[65] There is no doubt that the Bank's funding in particular has been critical to many specific projects and to lubricating the economic machinery at a time when many facets of the Ghanaian economy had all but stopped.

However, it is important to examine the net flow of foreign funds to Ghana because the nominal magnitude of incoming funds exaggerates international support for the adjustment program. As the table shows, Ghana was heavily dependent on expensive money from the IMF at the beginning of the program, and those funds had to be repaid quickly. Also, the PNDC government was forced to pay several hundred million dollars of debt that the previous military government had disavowed. The net flow of funds is even less impressive when it is remembered that Ghana had to use some of its aid to rebuild foreign exchange reserves which had dwindled to almost nothing by 1983. As a result, Ghana's net flows on aid, while still demonstrating impressive international support for the adjustment program immediately after 1983, suggest that it would be incorrect to tie too much of the ERP's success to outside support.

Also, noting Ghana's dependence on aid is not a damning criticism of the ERP because the World Bank has made it clear from the beginning that economic reform in Africa would be dependent on a large inflow of resources from external donors at highly concessional rates. Given the disrepair in which Ghana and other African countries have found themselves, there is no way they could have raised themselves by their own bootstraps. A more serious question is: can the Bank provide the same level of resources to other African countries interested in following the Ghanaian model. Certainly, there is more than enough money in the Bank for five or six more Ghanas because the money provided to Ghana was not that significant to the Bank. Whether there will be funds for more countries than that is unclear. The lesson for African countries is that it is important to be the second or third fastest reformer rather than the twentieth.

Issues of Democratization

There is an intensifying debate over the relationship between economic reform and political liberation in Africa, especially after the Eastern European revolutions of 1989. At a theoretical level, there is an obvious relationship between political systems that are open and well functioning economies. Open political systems allow information to pass through to a variety of economic decision-makers, who are then able to act. Closed political systems, where only limited information is funnelled to the state, effectively prevent economic decentralization.

However, in practice, there is a very ambiguous relationship between political form and economic performance. There have been multiparty systems that have performed

Actual and Projected Total Aid Flows

	1983	1984	1985	1986	1987	1988	1989	1990	1991
				(millions of U.S. dollars)					
Capital Inflows									
ODA	110	258	224	358	437	499	569	629	622
Med. Term Debt	114	170	153	133	109	118	56	51	35
IMF	340	218	124	38	149	210	188	131	62
Payments									
Debt	125	115	248	251	182	208	184	123	122
Interest	82	101	10	10	126	142	115	106	105
IMF	16	4	0	22	174	255	184	111	66
Arrears	0	208	57	4	71	30	45	25	0
Net Position	331	218	90	147	142	192	285	446	426

Source: World Bank, *African Economic and Financial Data* (Washington, DC: World Bank, 1989), Ghana, *Towards a New Dynamism: Report Prepared by the Government of Ghana for the Fifth Meeting of the Consultative Group for Ghana* (Accra: Government Printer, 1989), p. 30, and private communication from the Ministry of Finance.

Note: There is some disagreement among the sources concerning the actual level of disbursements for 1983.

relatively well but others that have eventually fallen apart because of how badly their economies were deteriorating. Authoritarian or one-party states have often fared poorly economically, but South Korea and Taiwan during their dramatic growth stages allowed no political competition. Similarly, Japan during the entire post-war period has been essentially a one-party state. Indeed, extremely good reviews of the relationship between economic performance and political structure have ended with ambiguous conclusions.[66]

From my overall examination of the Ghana case, it seems that discussion of overarching political structures such as "one-party state" or "multi-party system" are too general and miss a more nuanced point. The key to economic performance in many countries is that the political structures allow information to pass freely through to decision-makers, who are then free to act in a relatively uncompromised manner. For instance, while South Korea did have an authoritarian government, its political structures allowed information, especially prices and other signals from the international economy, to be transmitted in an undistorted manner.[67] In Ghana, economic reform will only continue if government structures are developed so that more information is transmitted to key economic decision-makers in the public and private sector. These structures do not necessary have to be multi-party systems; indeed, Ghana's previous experiences with multi-party democracy suggests that these systems can become closed, urban centered, and information poor.[68] However, the structures that are developed will have to be fundamentally different from anything that Ghana has had before.

There are several reasons why a government such as Ghana's, which has successfully passed through the stabilization phase of reform, needs a significant amount of increased information about the economy. First, the early reforms, such as devaluation, could be done by a very small leadership that was autonomous from societal pressures. However, the extraordinarily difficult administrative reforms such as renovation of the SOE's or banking reform simply takes more information. These changes require competent administrative structures which will not function properly unless they have a profound understanding of the exact problems they face and the overall economic context.

Second, a government with an orientation toward the rural areas needs a large amount of information from the areas beyond the cities. Most of the information that the government does receive now comes from the urban sector. If there is to be a true reversal of the terms of trade, the government simply must have a more profound understanding of what is happening in the rural areas. At the same time, expanded government contact with the rural sector might mean that in the long-term the government could reap some political rewards from a rural-focused development strategy. Without institutional contacts in the rural areas, even if the rural people favor the government, there are no transmission belts for that support to reach the central government. Only if the government sets up institutional conduits to the rural areas, will that support be able to flow.

The visionaries within the PNDC realize that they have a tremendous problem with information flows, especially regarding the rural areas. Therefore, the government established 110 District Assemblies in 1988 and held non-party elections for approximately 2,200 assemblymen in 1988 and 1989. However, the District Assemblies are not designed to transmit information, and they currently lack the expertise or the resources competently survey to their constituencies even if they desired to inform the central government about the state of agriculture, the roads, or social services. Also, the central government itself probably does not have the capability at this time to begin to absorb significant information from the countryside even if there were a dense enough institutional structure to transmit greater amounts of data. Thus, the District Assemblies are, at best, a start in terms of the structures that Ghana will need so that it can continue its economic reforms.

Creating the institutions that would allow information to be widely transmitted would represent a particularly difficult challenge to the PNDC. Indeed, while many believe that the biggest political challenges to a government in an economic reform program are in the early days when it has to adopt controversial measures, such as devaluation and elimination of price controls, it should be clear that transforming the nature of the government itself poses an exceptional challenge. Given the daunting political and administrative challenges that the PNDC faces in establishing local structures and its own unwillingness to change its political style, it is highly unlikely that the government will be able to develop structures ahead of time to provide decision-makers with needed information and to allow for a proper devolution of political authority. Rather, it is likely that the government will always be behind the pace of economic reform, constantly trying, in a ad hoc manner, to create institutions that will attempt to address the need to gather more information and decentralize political authority. Thus, a significant lesson of the Ghanaian experience is the importance of anticipating the demands that reforms after stabilization will place on governments and the necessity of governments trying as early as possible to decentralize and develop multiple conduits for information to flow through society.

Notes

1. Fiscal Affairs Department, *Fund-Supported Programs, Fiscal Policy and Income Distribution*, IMF Occasional Paper no. 46 (Washington, DC: IMF, 1986), p. 12 and pp. 42-53.

2. S. Kimaro, "Floating Exchange Rates in Africa," IMF Working Paper, no. WP/88/47, 1988, p. 26.

3. Reform and privatization of SOE's are also extremely common aspect of reform programs. Fiscal Affairs Department, pp. 42-53.

4. Henry S. Bienen and Mark Gersovitz, "Consumer Subsidy Cuts, Violence, and Political Stability," *Comparative Politics* 19 (1986) and "Economic Stabilization, Conditionality, and Political Stability," *International Organization* 39 (1985).

5. Clive Crook, "Trial and Error," *The Economist*, 23 September 1989, p. 39.

6. Robert Szereszewski, "The Performance of the Economy, 1955-1962," in Walter Birmingham, I. Neustadt and E.N. Omaboe (eds.), *A Study of Contemporary Ghana*, vol. 1 (Evanston: Northwestern University Press, 1966), pp. 41-42 and World Bank, *African Economic and Financial Data* (Washington, DC: The World Bank, 1989), p. 18.

7. The World Bank, *Ghana: Policies and Programs for Adjustment* (Washington, DC: The World Bank, 1984), p. 90.

8. Ibid., p. 85, 98.

9. Calculated from Kodwo Ewusi, *Statistical Tables on the Economy of Ghana*, 1950-1985 (Legon: Institute of Statistical, Social and Economic Research, 1986).

10. Sheetal K. Chand and Reinold van Til, "Ghana: Toward Successful Stabilization and Recovery," *Finance & Development* March 1988, p. 33.

11. Dr. Joseph Abbey, "Ghana's Experience with Structural Adjustment," mimeo, n.d., p. 2.

12. World Bank, *African Economic and Financial Data*, p. 196.

13. Rawlings had first taken power on June 4, 1979 but allowed planned elections to take place. He turned power over to Hilla Limann in September 1979.

14. *Ghanaian Times*, 31 December 1982.

15. Baffour Agyeman-Duah, "Ghana, 1982-1986: The Politics of the P.N.D.C.," *The Journal of Modern African Studies* vol. 25, no. 4 (1987), p. 623.

16. Calculated from Ewusi.

17. Quoted in the *People's Daily Graphic*, 25 April 1983.

18. J.J. Rawlings, "Ghana's Moment of Truth," reprinted in *Forging Ahead: Selected Speeches of Flt. Lt. Jerry John Rawlings* (Accra: Information Services, 1984), p. 16.

19. Tony Killick, *Development Economics in Action: A Study of Economic Policies in Ghana* (NY: St. Martin's Press, 1978), p. 288.

20. Reginald H. Green, Ghana (Helsinki: World Institute for Development Economics Research, 1987), p. 23.

21. Joan M. Nelson, "Conclusions," in Joan M. Nelson (ed.), *Economic Crisis and Policy Choice* (Princeton: Princeton University Press, 1990), p. 335.

22. J.L.S. Abbey, *On Promoting Successful Adjustment: Some Lessons from Ghana* (Washington, DC: Per Jacobsson Foundation, 1988), p. 11.

23. J. Clark Leith, *Foreign Trade Regimes and Economic Development: Ghana* (NY: National Bureau of Economic Research, 1974), pp. 152-155.

24. Adrian Wood, *Global Trends in Real Exchange Rates, 1960 to 1984*, World Bank Discussion Paper 35 (Washington, DC: The World Bank, 1988), p. 122.

25. See, *Report of the Commission of Enquiry into Alleged Irregularities and Malpractices in Connection with the Issue of Import Licenses* (Akainyah Commission) (Accra: Government Printer, 1964), p. 12 and *Report of the Commission of Enquiry into Trade Malpractices in Ghana* (Abraham Commission) (Accra: Government Printer, 1965).

26. Napoleon Abdullai, "The Revolution or the IMF," *Daily Graphic*, 7 September 1982. The *Daily Graphic* added the appellation "People's" on 31 December 1982.

27. There is, in fact, substantial evidence that the Acheampong coup was planned well beforehand and would have happened even without the devaluation. However, the political mythology that developed afterward was that the devaluation was directly responsible for the toppling of the Busia regime. See, Thomas Callaghy, "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria" in Joan M Nelson (ed.), Economic Crisis and Policy Choice (Princeton: Princeton University Press, 1990), p. 272.

28. See, for instance, Governor of the Central Bank J.S. Addo's speech, "The Justification for Devaluation under the Economic Recovery Programme, 1983-6," reprinted in *The State of the Economy*, number 2 (Accra: Information Services Department, 1986), 22.

29. Tsatsu Tsikata, "The Human Dimension of Africa's Economic Recovery and Development: Ghana's Country Experience," paper presented at the International Conference on "The Human Dimension of Africa's Economic Recovery," Khartoum, 5-8 March 1988, p. 9.

30. Information Services Department, *Ghana: Two Years of Transformation* (London: Impads, 1983), pp. 25-26.

31. G.G. Johnson et. al., *Formulation of Exchange Rate Policies in Adjustment Programs*, IMF Occasional Paper no. 36 (Washington, DC: IMF, 1985), p. 28.

32. *People's Daily Graphic*, 20 May 1983.

33. *People's Daily Graphic*, 30 April 1983.

34. *People's Daily Graphic*, 10 November 1984.

35. A. Adu Boahen, *The Ghanaian Sphinx* (Accra: Ghana Academy of Arts and Sciences, 1989), pp. 51-2.

36. Trade Union Congress, "Views of the Trade Union Congress on the Economic Recovery Programme Policy Framework, 1986-1988," Accra, mimeo, 1988, p.2.

37. Kodwo Ewusi, *Structural Adjustment and Stabilization Policies in Developing Countries* (Tema: Ghana Publishing Corporation, 1987), p. 77

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39. *The Pioneer*, 25 November 1985.

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43. *People's Daily Graphic*, 25 April 1983.

44. Ghana, *Programme of Action to Mitigate the Social Costs of Adjustment* (Ghana: Government Printer, 1987), p. 21.

45. E. Gyimah-Boadi, "SOE Divestiture: Recent Ghanaian Experience," mimeo, 1990.

46. W. Adda, "Ghana," in V.V. Ramanadham (ed.), *Privatization in Developing Countries* (London: Routledge, 1989), p. 305.

47. World Bank, *African Economic and Financial Data*, p. 166 and Peter S. Heller and Alan A. Tait, *Government Employment and Pay: Some International Comparisons* (Washington, DC: International Monetary Fund, 1983), p. 7.

48. Daniel Swanson and Teferra Wolde-Semait, *Africa's Public Enterprise Sector and Evidence of Reforms*, World Bank Technical Paper no. 95 (Washington, DC: The World Bank, 1989), p. 31.

49. Adda, p. 307.

50. W. Adda, "State-Owned Enterprises," mimeo, May 1989, p. 2.

51. Andrzej Krassowski, *Development and the Debt Trap: Economic Planning and External Borrowing in Ghana* (London: Overseas Development Institute, 1974), p. 118.

52. PNDC, *National Programme for Economic Development* (Accra: Government Printer, 1987), p. 25.

53. Myrna Alexander, "Africa" in V.V. Ramanadham (ed.), *Privatization in Developing Countries* (London: Routledge, 1989), p. 325.

54. Quoted in *West Africa*, 27 June 1988, p. 1152.

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56. Don Babai, "The World Bank and the IMF: Rolling Back the State or Backing its Role?" in Raymond Vernon (ed.), *The Promise of Privatization* (NY: Council on Foreign Relations, 1988), p. 266.

57. Peter Nicholas, *The World Bank's Lending for Adjustment*, World Bank Discussion Paper no. 34 (Washington, DC: The World Bank, 1988), p. 20.

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59. John Richardson, "Speech at the 29th Annual General Meeting of the Association of Ghana Industries," (Accra, mimeo, 1989), p. 8.

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62. E. Oti Boateng et. al., *A Poverty Profile for Ghana, 1987-1988*, Social Dimensions of Adjustment in Sub-Saharan Africa Working Paper no. 5 (Washington, DC: The World Bank, 1990), p. 14.

63. *Peoples' Daily Graphic* 27 December 1989.

64. Peter S. Heller et. al., *The Implications of Fund-Supported Adjustment Programs for Poverty: Experiences in Selected Countries*, IMF Occasional Paper no. 58 (Washington, DC: IMF, 1988), p. 17.

65. Ghana, *Towards a New Dynamism: Report Prepared by the Government of Ghana for the Fifth Meeting of the Consultative Group for Ghana* (Accra: Ghana, 1989), p. 6.

66. Stephan Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in Jeffrey D. Sachs (ed.), *Developing Country Debt and Economic Performance*, vol. 1 (Chicago: University of Chicago Press, 1989), p. 233.

67. World Bank, *Korea: Managing the Industrial Transition*, vol. 1 (Washington, DC: The World Bank, 1987), p. 35.

68. Naomi Chazan, "Ghana: Problems of Governance and the Emergence of Civil Society," in Larry Diamond, Juan J. Linz and Seymour Martin Lipset (eds), *Democracy in Developing Countries*: Africa (Boulder: Lynne Rienner, 1988), p. 130.

Some Basic Facts About Kenya

Present Official Name: Republic of Kenya

Year of Independence: 1963

Pre-Independence Status: British colony

The Government

Capital City: Nairobi
Head of State: President Daniel arap Moi
Head of Government: President Daniel arap Moi
How/When Present Government Came to Power: Constitutional transfer of power (1978)
Number of Officially Permitted Political Parties: 1

The People

Population: 23.5 million (World Bank estimates for mid-1989
Average Annual Population Growth %: 3.9% (World Bank estimate for 1980-1989)
Major Languages: Swahili (official), English, Kikuyu, Luo, others
Religions: Christian (66%), traditional belief systems (26%), Muslim (6%)
Number of Universities: 4

Some Economic Data

Area: 224,081 sq. miles (580,367 sq. km)
GDP ($): $7,130 million (World Bank estimate for 1989)
GNP per capita ($): $360 (World Bank estimate for 1989)
Major Seaports: Mombasa
Major Exports: Coffee, tea, petroleum products
Other Present or Potential Sources of Income: tourism, gold, limestone, magnetite, feldspar, sapphires, garnets, wildlife, steel, aluminum, beer, shoes
Major Imports: crude petroleum, machinery, iron and steel, vehicles
Major Trading Partners in Descending Order of Importance:
Imports: European Community, UAE, Japan
Exports: European Community, Uganda
Total External Debt ($): $5,690 million (World Bank estimate for 1989)
Debt Service Ratio (Total Debt Service as % of Exports of Goods and Services): 33.3% (World Bank estimate for 1989)
Monetary Unit: Kenya shilling

Armed Forces

Size/Breakdown: Active 23,600 (army 19,000, navy 1,100, air force 3,500), paramilitary 4,000 (IISS estimates for 1991)
Annual Defense Expenditure ($): $100 million (CIA World Factbook estimate for 1989)

Chapter 6
The Political Economy of Economic Reform in Kenya

David F. Gordon

Introduction

In the 1960s and 1970s, Kenya was portrayed, both by academics and by Western multinational firms, governments, and international financial and donor agencies as a paradigm of successful capitalist development in Africa.[1] Between independence in 1963 and 1980, led by a significant influx of foreign investment and tremendous expansion in small-holder agriculture, the Kenyan economy grew at a rate of over 6 percent per year. Even given Kenya's very high rate of population increase (close to 4 percent per year), this sustained high growth performance translated into a substantial increase in per capita income and an improvement in the quality of life for millions of Kenyans. This was reflected in improvements in life expectancy, literacy, and child survival rates. This is not inconsistent with the likelihood that an increasing number of Kenyans became absolutely impoverished during the same period, largely due to land pressure generated by limited arable land and the high rate of population growth.[2] But development in Kenya has never been fundamentally constrained by Latin American-style underconsumption. The late populist politician J.M. Kariuki's 1974 description of Kenya as a country of "ten millionaires and ten million beggars", while appealing to Western leftists, could not have been further from the truth.

While Kenya was hard hit by the shocks in the international economy in the mid-1970s and early 1980s, it rebounded effectively and has continued to experience high rates of economic growth even as almost all other sub-Saharan African states faced economic crisis and decline. Economic growth in Kenya in the 1980s has been seven times faster than sub-Saharan Africa taken as a whole. In the last half of the 1980s, growth has again reached some 5 percent per year.

For those who have travelled and worked elsewhere in Africa, upon entering Kenya there is immediate physical evidence that the country is much more than another African basket-case: the proliferation of building and infrastructure expansion in Nairobi, the well-tended small-holder farms that dominate the rural landscape in the heavily populated areas of the country, and the large farming and ranching operations that exist in the less heavily populated areas. While problems of poverty and the "crime and grime" of urban Third World life are much more visible in contemporary Kenya than they were 20 years ago, one does not witness the deterioration and enervation that dominates so many other African countries. Rather, one is impressed by the dynamism of both the formal and informal private sectors, the relative effectiveness of the bureaucracy, and the general activity that one sees in both urban and rural life.

It is thus at first glance a bit surprising that Kenya should have become the target for international financial institutions' and other donor agencies' efforts to promote economic restructuring and liberalization in the 1980s. Why tamper with something that apparently works well, particularly on a continent where so much does not? But, behind Kenya's strong record of economic dynamism and the reality of continuing economic growth, large structural problems loomed. These structural problems have been most dramatically expressed in 20 years of very limited employment creation in the formal private sector and an increasingly severe balance-of-payments problem. The lack of private sector employment creation has led to a rapid expansion of public employment (with consequent budgetary implications) and sharply deteriorating real wages, while the balance-of-payments crisis has made Kenya increasingly vulnerable to external shocks and dependent upon donor resource flows.

While many of the structural problems that underlie Kenya's employment and balance-of-payments crisis were first articulated by the international financial institutions and other donor agencies, they have been recognized and accepted by many Kenyans, including leading civil servants and politicians. Official Kenyan policy pronouncements and papers, even those not prepared for, or in close consultation with, the IMF and the World Bank, express analysis and prescription remarkably similar to those of the IFIs. Sessional Paper No. 1 of 1986, "Economic Management for Renewed Growth," which sets out the Kenyan government's own medium-term economic program, is fully consistent with the intellectual themes that have informed IFI programs in the 1980s.[3]

The predominance of conditionality in Africa in the 1980s has generated the widespread misperception that external actors have been virtually the only source of economic policy change. In Kenya this is hardly the case. While the donor community initially took the leading role in setting the agenda within which the Kenyan government has responded to its underlying structural weaknesses, other factors have also motivated economic reform. The growing realization of the structural underpinnings of limited employment growth and poor export performance has generated a broad consensus, both within government and in the private sector, favorable to the long-term goal of moving Kenya away from a public-sector-led employment strategy and an inward-oriented trade policy. Reform in Kenya has also been promoted by the general re-orienting of global strategies for growth--a new belief in the efficiency of markets, a more open stance towards the international economy, a larger role for entrepreneurship—that has affected other areas of the developing world as well as Eastern Europe. Glastnost and perestroika in the Soviet Union, the remarkable changes transpiring in Eastern Europe, and the economic dynamism achieved by the "four tigers" of East Asia are inspiring a new cadre of Kenyan intellectuals today much as the Cuban revolution and the Chinese Cultural Revolution inspired the young radicals of a generation ago (many of whom now form the intellectual core of the "democratization" movement, having incorporated Western political liberalism into their radical and populist ideology). Finally, reform in Kenya is motivated by Kenyans' self-perception as leaders of Africa and their desire to remain ahead of the rest of the continent.

But, while the need for some degree of economic reform in Kenya has been almost universally proclaimed, it remains a bitterly contested terrain of public policy. A recent World Bank Working Paper by Harvard economist Dani Rodrik argues that the economic theory behind liberalization efforts in developing countries is embarrassingly weak.[4] Similarly, Toronto economist G.K. Helleiner, a long-time observer of Africa, has argued that there is little common meaning attached to "structural adjustment" in the African context.[5] The Kenyan experience of economic reform in the 1980s gives weight to these interpretations.

The fact that Kenya has experienced strong economic growth has led to widespread complacency, has weakened the intellectual rationale for change, has generated important entrenched interests for whom the status-quo is still generating considerable benefits, and has increased the risks that the government faces in undertaking reform. As a result, the evolution of economic reform in Kenya has been anything but smooth and has been marked by domestic conflict and frustration and disappointment on the part of both the government and the donor community. Thus, the dynamics of reform in Kenya differ substantially from those countries in which an economic "trough" had been reached and in which acquiescence to donor conditionality, at least in the early phases of the reform process, was driven by dire economic need.

The economic and technical problems of reform in Kenya have been far more complicated than many thought. The politics of implementing economic restructuring are similarly difficult and have led to considerable delays in the implementation of many initiatives. Equally problematic are the social and political ramifications of reform, often touching on basic elements of the social and political fibre of Kenyan society. Almost invariably, the specifics of Kenyan reform programs have resided in the intellectually sticky realm of "second-best" solutions of incremental and partial change rather than sharp moves to market-based outcomes.

This essay will be divided into three parts. In the first, I will briefly discuss some of the important historical factors that provide the background to the economic reform initiatives and have influenced its pattern of implementation. In the second (and longest) section, I will review the experience and impact of economic reform in Kenya, focusing on macro-economic stabilization issues, agricultural sector reform, and public sector and state-owned enterprise reform. The conclusions will explore some of the specific political themes that have emerged in the economic reform program and suggest some of the major issues that are likely to dominate the political economy of reform in Kenya in the next several years.

Background to Economic Reform

Post-colonial Kenya, under the ambiguous (but accurate) rubrics of African Socialism and a mixed economy, undertook what was probably sub-Saharan Africa's most successful effort at inward-looking and public-sector-led development. This development strategy built directly upon (1) the economic structures and policies that were inherited from settler colonialism and (2) the British initiatives, in the mid- and late-1950s, to de-racialize the

Kenyan economy (initially part of the counter-insurgency strategy to contain the Mau Mau rebellion, later in anticipation of decolonization). Two elements from each of these historical legacies are important for understanding the politics of economic life in independent Kenya and the background to the economic reform initiatives of the 1980s.

The most important legacy of settler colonialism was the creation and institutionalization of powerful rural interests. The political backbone of settler colonialism in Kenya was the economically-vulnerable European farming community comprising some 4,000 farms in what was called the White Highlands. These farmers effectively organized themselves into country-wide and local associations and exerted continuing pressure on the colonial government on behalf of their interests. Under pressure from the white farmers the colonial government established a system of marketing boards that paid *above* import parity prices for especially vulnerable crops (in particular, maize). The colonial government also institutionalized a pattern of farmer-government interaction in the setting of agricultural policy.[6]

In the aftermath of independence Kenya's first president, Mzee Jomo Kenyatta, sought to reassure the white farmers that they had a role in independent Kenya while at the same time seeking the racial integration of the large-farm sector. The pricing and marketing patterns, and the farmer-government interactions, of the colonial period were substantially maintained, while the political and civil service elite were encouraged to purchase (at subsidized prices) and develop their own large farms. Over time the large farm sector became almost completely Africanized (there are only several hundred white-owned farms in contemporary Kenya) and has been a core political constituency for both Kenyatta and his successor, Daniel Arap Moi. Thanks to the political power of the large farm sector, both in the colonial and independence period, Kenya has had a counter-weight to the interests behind import-substituting industrialization and has thus avoided the "urban bias" that has marked so many other African countries, whereby rural surpluses have subsidized urban consumption and capital formation.[7]

The second legacy of settler colonialism was the establishment, well before independence, of an industrial base in manufactured goods, protected by a finely tuned and individually designed set of tariffs and import quotas.[8] In the late colonial period and through the first decade of independence Kenya was perceived by foreign investors to be the industrial core of an expanding East African market that included Tanzania and Uganda (linked to Kenya in a series of regional arrangements) and stretched even to Zambia and beyond. The colonial government sought to promote foreign investment both by protecting investors against low-cost substitutes from the industrialized countries and by securing domestic monopolies. Thus, the broad pattern of interventionism in industry that now exists in Kenya also has distinctly colonial roots.

In the middle 1950s the colonial government began the deracialization of the Kenyan economy. Two important elements of the independence political economy have their roots in this period. The first is the encouragement of smallholder commercial agriculture and the erosion of the rural dualism that marked settler colonialism.[9] The growing of coffee, tea, and pyrethrum by smallholder was tremendously expanded through the implementation of the "Swynnerton Plan" beginning in 1954. In the final years of colonial rule an extensive resettlement program was begun that facilitated the breakup of large farms and allowed smallholders to acquire good land at low cost from departing Europeans.[10] Both of these policy thrusts were expanded under the independence government. The facilitation of smallholder commercial farming and the ease of new land acquisition created a "one-time only" boost to the Kenyan economy whose impact was felt for nearly twenty years!

In the final years of colonial rule, the government also began to intervene to support an expanded role for Africans in commerce. This responded to powerful pressures within the nationalist movement for indigenization of the economy. In order to protect the core of British interests against potential radicalization of this tendency, the colonial government undertook an "ends-against-the-middle" strategy of supporting African business development into areas hitherto dominated by Indians, especially rural and small-town trade.[11] This element of the late colonial period political economy was dramatically escalated under the independence government and directed not only against the "middle" but against elements at the "top" as well. Asian, and later European and multi-national business, interests were squeezed in a number of ways, both formal and informal. Ever broader sections of the economy were restricted to Africans, while the licensing and foreign exchange control regulations were used to pressure non-Africans into selling out. Among the most important Kenya government initiatives, for our purposes, was the creation of dozens of parastatal firms and the formation of parastatal investment and holding companies that invested in virtually every sector of the economy.

On the basis of strong smallholder expansion, an effective balance between import substituting industries and powerful rural interests, and a similarly effective balance between the pressures for indigenization and support for foreign investors, the Kenyan economy, between the mid-1950s and late 1970s, experienced a 25-year economic boom that was marked by only two downturns, one at the time of independence when fears of either radicalism or anarchy led to capital flight and another in 1974-5 when the price of oil imports dramatically increased. Until the mid-1970s Kenya's economic boom was accompanied by very low rates of inflation and strong fiscal performance, which together precluded the debilitating currency overvaluation that so weakened many other African economies.

In retrospect, the first oil shock marked an important break in Kenya's economic fortunes, although it was not realized at the time due to the strong balance-of-payments position and the fact that it was quickly followed by the coffee and tea booms of 1976-1978. As in much of the world, the oil shock had a stagflationary effect in Kenya, increasing inflationary pressures and limiting domestic resources available to promote sustained growth. The Kenya government responded to this in two ways. First, it dramatically increased its recourse to international capital markets, beginning what was to be an almost continuous series of programs with the International Monetary Fund, expanding ambitious investment projects funded by "hard" World Bank loans and borrowing recycled petro-dollars from private financial institutions, which appeared to be "rational" given low to negative real interest rates. Second, it attempted to prime the pump of the domestic economy by rapidly expanding the role of the public and parastatal sector. The share of public sector output in GDP rose from under 25 percent in 1976 to over 35 percent in 1981.[12]

By the end of the 1970s four interconnected and disturbing domestic economic trends were becoming visible and exacerbating the impact of external shocks in Kenya.

The *first* was a decline in the productivity of investment. While investment as a proportion of GDP actually increased from 20 percent to 25 percent between the mid-1960s and the end of the 1970s, the World Bank estimates that the incremental capital output ratio in industry declined by 50 percent, with a perhaps even greater loss of productivity in agriculture. The data, while not perfect, suggest that agricultural growth virtually stagnated in the 1974-80 period. Time had run out on the "easy" option of smallholder commercialization and resettlement. In 1982 a World Bank review of the agriculture portfolio stated that only one of 12 projects was "relatively free of problems."[13]

The *second* was a slowing down of formal private sector employment creation, which in the context of Kenya's very high rate of population growth, was leading to increasing unemployment and underemployment, lowered real wages, and increasing pressure on government to directly create employment. Virtually all formal private sector investment in the first decade of independence had been capital-intensive activities financed by foreign investment. On Labor Day, 1979, President Moi instructed all public sector establishments to increase their employment rolls by 10 percent.

The *third* was a growing public finance problem. During the first decade of independence the expansion in budgetary expenditure had been financed overwhelmingly by increased revenues, which grew from 16 percent of GDP in 1964 to 24 percent in 1974. But during the second half of the 1970s expenditures continued to increase as a share of GDP, but the revenue-GDP ratio flattened. At the same time, public employment levels began to increase dramatically while discipline in public enterprise operations and investments was lost.

The *fourth* was a growing imbalance between exports and imports in the balance of payments. Despite periodic tropical beverage booms, Kenya's traditional exports faced a secular deterioration in the terms of trade. In addition, export volumes were generally static. Over time earned foreign exchange (exports) accounted for an ever smaller proportion of imports. Beginning in 1974 the index of export volumes relative to constant price GDP began to drop precipitously, generating unsatisfied demand, held down by quota and import license restrictions that were increasingly vulnerable to corrupt and politically driven practices.

In addition to these structural weaknesses, Kenya in the late 1970s was, like so many other African countries, becoming increasingly vulnerable to what Thomas Callaghy has called "crony statism," a syndrome marked by the extraction and distribution of rents to support clientelist networks, expansion of the size of the state, and the purchase of public support via welfare services and subsidies.[14] Some elements of crony statism had existed ever since independence in Kenya. However, the transition from Jomo Kenyatta, who died in late 1978, to Daniel Arap Moi led to an increase in these tendencies. Kenyatta's main base of public support was in the Kikuyu tribe, the most entrepreneurial and dynamic of Kenya's African ethnic groups. The Kenyatta regime, while hardly adverse to using the state for political purposes, did not have to resort to extreme crony statism in order to advance Kikuyu interests. Moi, on the other hand, came from the much smaller and less advanced Kalenjin tribe. Shortly after coming to power he articulated a more "populist" policy tone in an effort to consolidate his own regime. Moi-style populism involved rapid promotion for his ethnic compatriots, the sowing of conflict among the Kikuyu, and slow but gradual stripping of Kikuyu influence in Kenyan life, in both the public and private sector.[15]

The combination of external shocks, growing domestic economic problems and resurgent "crony statism" was further exacerbated by the break-up of the East African Community and economic and/or political crisis in virtually all of Kenya's neighbors, which virtually erased what had been a significant market for exports and an important draw for foreign investors. All of these trends interacted with broader changes in the international economy (the emerging Third World debt crisis and strength of the American economy) to erode dramatically the investment climate in Kenya, although again, this was not perceived until well after the fact. While firm data are very hard to come by, knowledgeable observers place the end of the 1970s and beginning of the 1980s as the time when, in sum, private capital inflows ceased and capital flight, both legal and illegal, began. Thus, when the second oil shock struck in 1979, the stage was set for the international financial institutions and other donor agencies to place the possibility of economic restructuring on the policy agenda in Kenya.

The Evolution and Impact of Economic Reform Efforts

Economic reform efforts in Kenya can be divided into two periods and are apparently beginning to enter into a third. The first period, beginning in 1979 and lasting until 1985, was characterized by weak initial efforts to stabilize the economy followed by more successful ones. The government's relationship with the IMF dramatically improved during this period. On structural reform, the period was marked by aborted efforts and growing conflict between the government, and the World Bank and USAID. The second period, beginning in late 1985 and lasting until recently, saw somewhat weakened stabilization efforts but the initiation of a wide range of structural reforms. The second period was marked by much more cordial relations between Kenya and the donor community. In fact, during this period, Kenya became touted by the World Bank as a model of successful structural adjustment. There is evidence that the policy reform process is now entering into a third period. This is likely to involve very difficult political decisions concerning the status of the parastatal sector and efforts to generate a more sustainable fiscal balance. Trends suggest that Kenya is again moving into a period of conflict with the donors, in which donor concerns about the slow pace of implementation of economic reform are being exacerbated by the Kenya government's aggressive resistance to political liberalization.

Phase One: 1979-1985

The year 1979 witnessed both the collapse of the coffee boom and the second oil shock. Due to the trends discussed above, the Kenyan economy was much more vulnerable to the second shock than it had been to the first in 1974. A major balance-of-payments crisis loomed that sent the Kenya government scurrying to the IMF for support. Negotiations with the Fund proved difficult, and despite reaching a tentative agreement on a stand-by program in August, 1979, disbursements were delayed for over a year. Relations between Kenya and the Fund during this time were not especially good. Kenya had been unable to complete its drawings on the prior two stand-bys it had received since 1975. In both cases, as soon as the initial crisis abated, the government failed to hold to the credit ceiling and government borrowing targets.[16] This reflected what at that time was a cyclical trend in Kenyan policy-making. When macro-economic imbalances threatened to get out of control, political influence shifted to Treasury and Central Bank technocrats, who had good relations with the Fund. These individuals then negotiated a stand-by arrangement and undertook the initial implementation of the program. As soon as the balance-of-payments crisis eased, political influence shifted back to the spending ministries, and top government officials allowed the IMF targets to slip. By the time of the 1979 crisis the Fund was trying to strengthen its conditionality in order to break this cycle.

In the context of its conflict with the Fund in late 1979 and early 1980, the Kenya government turned to the World Bank to meet its financing shortfall. The Bank was already in the process of designing an industrial sector program to improve the efficiency of domestic-oriented manufacturing, increase government revenues and shift industrial incentives from the domestic to the export market. This was to be accomplished through shifting from quantitative restrictions to tariffs, rationalizing the structure of industrial protection, and boosting export incentives. Under pressure from the government the Bank converted this sector program into one of its first structural adjustment loans by adding some conditions relating to budgetary expenditure control. In March, 1980, SAL I, a $55 million policy-based program, was announced by the World Bank. Negotiations with the IMF continued, and in October, 1980, an SDR 241 million Stand-by arrangement was also signed.

These early stabilization agreements were not accompanied by serious government efforts at implementing the agreed-upon reforms. Both the Kenya government and the IFIs had underestimated the impact of the second oil shock and its likely long-term impact. In particular, the difficulties that would be posed in trying to reverse the increasing trend of rising budgetary expenditures was completely disregarded. In 1981 and 1982 the Kenyan economy continued to deteriorate, with inflation rising to 20 percent in 1982, fueled by a rapid increase in the budget deficit and increased recourse to borrowing from the Central Bank. Exports, the focal point of SAL I, continued to decline and little was in fact done to alter the policy and institutional environment for industry.

The IMF program was cancelled after the drawing of only SDR 90 million when the ceiling on government borrowing from the Central Bank was exceeded in early 1981. Despite the weak record of government implementation, the World Bank program was not cancelled, signalling, even then, the weaker nature of World Bank conditionality. While the World Bank SAL I program was continued, the program performance audit undertaken in 1984 was remarkably candid on the failure of the program even to begin to meet its objectives.[17]

Looking back at this period, it appears that the government (and, to a lesser extent, the IFIs) assumed that the second oil shock was going to be similar to the first, with the balance of payments and the economy as a whole being able to rebound quickly without the governments having to make difficult policy choices. But the two situations were, in fact, not at all the same. The second oil shock was followed by international recession, dramatically lowered commodity prices, escalating costs of international borrowing and the drying up of access to private capital markets. The first oil shock had been followed by the tropical beverage boom and expanded availability and lowered cost of international funds. What did not change during the 1980-to-early-1982 period was the pattern of passive exchange rate management and monetary policy by the Central Bank and the predominance of "populist" initiatives and increasing "crony statism" more generally in the public sector.

As the economic crisis deepened, however, Kenyan technocrats began to exert an increasing influence over government policy and began to see the crisis as an opportunity to introduce significant changes into the style and substance of economic policy-making. As we shall see, these efforts met with only very partial success. In 1982 the Commission on Government Expenditures, chaired by Central Bank Governor Philip Ndegwa, was very candid concerning the growing collapse of financial discipline. It accused the public sector of "gross misuse of government resources" and argued that unless the situation was reversed, Kenya faced a future of deteriorating government facilities and ever-increasing costs.[18] The Commission report brought the growing problems of the public sector into the public eye and raised the issue of the costs of "crony statism" to top government officials. The following year a Task Force on Divestiture was set up to examine critically the parastatal sector. President Moi began to de-emphasize populist policy themes and replace them with an anti-corruption orientation.

The deepening crisis and the need to gain access to external resources strengthened the position of technocrats in key economic ministries and weakened the role of the spending ministries. Of particular importance were Ndegwa and the permanent secretary in the Treasury, Harris Mule. Ndegwa and Mule, supported by the new permanent secretary in the office of the president, Simeon Nyachae, were to be the key economic policymakers in Kenya between 1982 and 1986, during which time the economic stabilization program took hold and important initiatives in broader structural reform were begun.

In early 1982 a new Stand-by arrangement with the IMF worth SDR 151 million was instituted. This was undertaken in an atmosphere of increasing political tension in Kenya. In early August elements of the Air Force initiated a coup attempt against the government of President Daniel Arap Moi. The Kenyan army remained loyal, and the coup attempt was put down, but not before large scale rioting and looting shook Nairobi. Much of the violence was directed against Kenya's Asian community, who still played a dominant role in commerce and an important role in manufacturing and services. Commercial confidence plummeted, and the premium between the official and parallel-market rate of the shilling increased dramatically.

The government responded to the political crisis by moving much more decisively to stabilize the economy. The political influence of Ndegwa, Mule, and Nyachae was further enhanced. President Moi made a major speech emphasizing the need to restore fiscal discipline and responsibility, while Ndegwa was given the go-ahead to devalue sharply the Kenyan shilling so as to limit the hemorrhaging of foreign exchange transactions into the parallel market and thus protect the viability of the official economy. The Kenyans had witnessed the shrinking of the official economies in neighboring Uganda and Tanzania when Central Bank officials reacted passively to the growing divergences between official and parallel market exchange rates. Indeed, the Kenya shilling had become something of a regional "hard currency" with benefits to the economy as a whole. Kenyan officials were thus committed to avoiding the Tanzanian and Ugandan path of currency irrelevance and the predominance of what in East Africa has become known as the "magendo" economy.

In two moves, in September and December of 1982, the shilling was devalued by 30 percent in nominal terms, a real devaluation of over 10 percent. This restored the shilling to its effective exchange rate of 1976. More importantly, the Central Bank successfully introduced and institutionalized a crawling peg system to eliminate the need for periodic large scale devaluations. In 1987 this was further expanded with another set of moderate devaluations followed by an even more active crawling peg. These exchange rate policy changes did not arouse heavy political opposition. The depoliticization of the exchange rate has been the single most important achievement of stabilization efforts in Kenya and has been recognized as an important continuing source of economic strength, especially given continuing concern over exchange rate levels and only marginal success on other stabilization and structural reform initiatives.

Why was Kenya able to institutionalize a significant exchange rate policy reform, while in so many other African countries such reforms have become the focal point of political conflict and have been exceedingly difficult to sustain? Several points are relevant here. First, the Kenya shilling had never been substantially overvalued, reflecting the balance discussed earlier between large farm interests and import-substituting industrial interests. Secondly, reflecting their self-perception as superior to neighboring countries, the Kenyan authorities never made the exchange rate the focal point of conflict with the IMF, arousing nationalistic sentiment. Finally, the limited range of imported goods that go to meet basic consumption needs in Kenya has helped to preclude the issue from becoming a focal point for popular mobilization.

Beginning in 1982, the Kenya government also undertook major steps to bring its fiscal deficit under control. Tight controls were instituted over spending, the rate of inflation was lowered from 20 percent to 10 percent in two years, and the overall budget deficit was brought down to 3.9 percent by the end of 1984. Public expenditure as a percentage of GDP diminished from 35 percent in 1982 to 29 percent in 1984. These successful budgetary moves also facilitated the institutionalization of the crawling peg by limiting the size of exchange rate depreciation needed to maintain real exchange rate parity with Kenya's major trading partners.

The initiation of deeper stabilization efforts led to a renegotiation and enlarging of Kenya's access to standby resources from the Fund. The March, 1983, SDR 176 million Standby became the first IMF program to be fully disbursed since Kenya's balance-of-payments problems began shortly after the first oil shock. This successful round of stabilization efforts led to a dramatic improvement in relations between Kenya and the Fund. This was reinforced by Kenya's continued honoring of its external debt repayment schedules and the lack of any overt Fund-bashing, either in government statements or in the media. Indeed, Kenya has been in good graces with the Fund ever since, despite a much less successful record in subsequent stabilization efforts.

In early 1982 the World Bank began the design of SAL II. The Bank's interpretation of the failure of SAL I was that it was due to its rather disjointed and piecemeal nature.[19] SAL II was an extraordinarily ambitious effort to remake the structures of the Kenyan economy. Its conditions touched upon almost all sectors of the economy. It set out a much more precise program of import liberalization and export promotion and included a major program of privatization and market decontrol in agriculture. SAL II was closely coordinated with USAID policy reform initiatives that sought parallel ends. AID, with its long presence in Kenya and strong ties to the Kenya government, saw the country as a prime candidate for its own foray into policy-based foreign assistance.

At the centerpiece of World Bank and AID efforts were import liberalization and the privatization of the marketing of maize. These reforms challenged two of the most important features of the political economy that independent Kenya had inherited from settler colonialism—the multi-faceted system of industrial protection that dominated Kenya's urban economy and the Maize Board (now renamed the National Cereals and Produce Board), with its mutually-beneficial links to the large commercial farmers who dominated the country's rural economy. In promoting import liberalization the Bank returned to the major policy that SAL I had unsuccessfully addressed. In taking on NCPB the Bank was challenging a deeply entrenched system in which the right to purchase from farmers and sell to millers had been monopolized by the Maize Board, which fixes producer and consumer prices and controls all private movement in maize across district lines. Reform of the maize marketing system had been the subject of Kenya government commissions of enquiry in 1946, 1952, 1955, 1958, 1963, 1966, and 1972. Each of these reform efforts had been unsuccessful.

The Bank argued that the liberalization of imports of essential capital and intermediate goods and the rationalization of the structure of protection would provide the export boost that Kenyan industry needed to compete in international markets while enhancing revenues. On maize marketing, the Bank argued that the existing system generated a large gap between producer and consumer prices inhibiting regional specialization and raising consumer prices as well as providing opportunities for rent seeking and corruption through manipulation of the movement control regulations.

The World Bank and USAID negotiated the ambitious structural adjustment package with the Kenyan Treasury during the first half of 1982, with the expectation that Treasury support would carry the day in policy implementation. But behind Treasury's apparent agreement on the package there was widespread opposition and uncertainty concerning both import liberalization and maize market decontrol. The manufacturers lobbied against import liberalization on the grounds that it would threaten thousands of jobs without really enabling Kenya to achieve export competitiveness. Elements in government feared that import liberalization would ease capital flight and in fact threaten the government's revenue base. The NCPB argued that maize decontrol would threaten its ability to maintain food security, a top government priority, and would enhance the position of Asian businessmen with negative political consequences.

The implementation phase of SAL II is very instructive for understanding the politics of economic reform in Kenya. While the government began to implement the key elements in the program, implementation only continued to the point of hitting major political opposition and roadblocks. In the case of import liberalization, the government, according to the agreed upon timetable, in June 1982 removed 20 percent of items subject to quotas from quota status. But, when the balance-of-payments situation worsened in August, this was reversed. In the next two years, a range of commodities were removed from the quota list, but the overall level of effective protection for manufactured goods changed little throughout the SAL II implementation period. A sign of the limited impact of this program was the fact that import liberalization became a major component of reform efforts in the latter years of the 1980s.

On maize marketing, there was a similar story of waffling. A consultants' report issued in early 1983 called for the NCPB to retreat to the position of "buyer and seller of last resort." This formed the basis for conditionality for the release of the second tranche of SAL II. Intense negotiations followed, and the disbursement of SAL II was held up for nine months. Finally, in December, 1983, the government announced that maize would shortly be decontrolled, and the second tranche was disbursed. This agreement was not implemented. Rather, the government announced in July, 1984, that the Kenya Farmers Association would be transformed into the Kenya Grain Growers Cooperative Union (KGGCU) and be allowed to compete with the NCPB in marketing maize and wheat. While KGGCU did enter the wheat market, they were not allowed into the maize market. The 1984 drought, in which the government felt that it was essential for them to be seen to be "in control" of the situation, put an end to this round of maize marketing reform efforts.

The problems in implementation of the structural adjustment program led to growing conflicts between Kenya and the World Bank and USAID. Donors felt that they had been misled by the Kenyans, whereas government leaders felt that they had done an effective job in overall economic management and that an overly ambitious and ill-suited reform program had been foisted upon them. They did not believe that the donors would punish them for this, believing (as Kenyans always tend to) that the donors had little choice but to continue working in Kenya given the lack of opportunities elsewhere in Africa. It is probably the case that the ease with which they disregarded the SAL I conditions (and got "rewarded" with SAL II) led them to feel that, while conditionality was important in macro-economic stabilization issues, it was much less so in structural reform issues. But in 1984 the Bank decided that the lack of progress in SALs I and II made it imprudent for them to move ahead with a new policy-based balance-of-payments program as had been planned. This was an important blow to the Kenyans, who had undertook their financial planning on the assumption that SAL III would be forthcoming.

The donors had misjudged the political commitment of the government to undertake the policy reform program and had overestimated the ability of Treasury and Central Bank technocrats to influence policy in areas in which implementation would directly run up against powerful and organized interest groups. While the Bank, in its assessment of SAL II, has explained the lack of effective implementation by focusing on the limited ability of the Kenya government to implement technically difficult policy reforms, it seems that interest-group politics played a much more significant role, especially in the case of maize marketing.[20] Limited donor involvement in prior policy reform initiatives and a lack of understanding of the policymaking process and of the political base of the regime generated an unwarranted belief in the effectiveness of conditionality.

The Kenya case played an important role in the evolution of donor thinking about policy-based operations in the mid-1980s. It was one of several country experiences that led the Bank away from economy-wide adjustment efforts towards sectorally focused programs. It also raised very directly the importance of institutional issues and analysis in the design of policy-based programs. These became increasingly important themes for the Bank in the late 1980s.[21]

Phase Two: 1985-1990

In the context of the conflict between the Bank and the Kenya government, senior government technocrats supportive of economic reform decided that their hand would be strengthened if they could generate a comprehensive statement committing the government to broad-based policy reform. At the same time, such a program, laid out in some detail, would be attractive to their political superiors in that it might serve to preempt future donor initiatives to determine the guidelines for the policy reform process. Throughout 1985, officials in the Treasury, Planning Ministry, and Central Bank, in consultation with the other ministries, worked on such a paper with the intention of issuing it as Sessional Paper No. 10 of 1985 (an effort to make it parallel with the famous Sessional Paper No. 10 of 1965, "African Socialism and its Application to Planning in Kenya," the first comprehensive policy statement by the independent Kenyan government). Delays caused the paper to be released in January of 1986, as Sessional Paper No. 1, under the title "Economic Management for Renewed Growth."

While articulated in the language of continuity, Sessional Paper No. 1 is in many ways a repudiation of the themes of Sessional Paper No. 10 of 1965. The new paper maintains the government's commitment to a mixed economy, but the clear message is that the private sector must play the predominant role as engine of growth in the economy. While Sessional Paper No. 10 articulated an import-substitution strategy, Sessional Paper No. 1 argues that Kenya must promote exports and integrate itself more effectively into the world economy. Despite the fact that Sessional Paper No. 1 is conspicuously silent on some issues (especially the question of maize market liberalization), it is probably the most comprehensive statement of economic reform generated outside of the framework of IFI negotiations or agreements in sub-Saharan Africa.

The issuing of Sessional paper No. 1 marked a high point in the influence of the troika of Mule, Ndegwa, and Nyachae. Shortly thereafter Mule would be eased out of Treasury (reportedly because of his over-enthusiasm for maize market liberalization). Somewhat later both Ndegwa and Nyachae would get caught up in the increasing ethnic favoritism of the Moi regime and also lose their positions. In the aftermath of the demise of the troika technocrats were to play a less direct role in the policy reform process. For example, following Mule's departure from the Treasury and Ndegwa's from the Central Bank, Professor Terry Ryan (a white Kenyan), the Economic Secretary, became the government's most articulate spokesman in negotiations with the IFIs. But, unlike Mule and Ndegwa, Ryan's role was that of adviser rather than direct negotiator for the Kenyan government.

Meanwhile, there had also been changes of personnel at both the World Bank and the AID offices in Nairobi, as well as a new US Ambassador committed to the establishment of better relations with the Kenya government. The Kenya government had been correct about the inability of the Bank to avoid involvement in Kenya if it was to be relevant to the policy reform process in Eastern Africa. The new World Bank representative, Jim Adams, was to play a particularly important role in facilitating an improved relationship between the Bank and the Kenya government and in getting the implementation of Sessional Paper No. 1 off the ground. In addition, there was growing coordination between the World Bank and the IMF, as the Bank found itself drawn further into macro-economic issues while the Fund expanded its own concerns beyond short-term stabilization toward broader-based adjustment.

In the second phase of economic reform in Kenya the donors had less of a pro-active strategy. Rather, they articulated policy themes parallel to those addressed in Sessional Paper No. 1 and in the Government's annual Budget Speech (which became increasingly important when the Finance Minister, Professor George Saitoti, assumed the Vice-Presidency in 1988) and designed conditionality that was much less specific, under the assumption that it made more sense to leave a good deal of flexibility to the government in implementing the reform program.

The second phase of economic reform saw initiatives in a range of fields: import liberalization and export promotion, price decontrol, public sector and parastatal rationalization, financial sector deepening, social sector cost recovery, and fertilizer and grain market liberalization. Some of these were undertaken by the Kenya government with only marginal external support. Others were part of comprehensive sector adjustment packages supported by the World Bank and other donors in agriculture, industry and finance. These structural reform initiatives were undertaken in the context of ongoing involvement with the IMF, given continuing problems in maintaining macroeconomic stability. In fact, as the 1980s came to a close, it became difficult to disentangle the two programs. Thus, before discussing the evolution of the structural reform efforts, it is useful to examine the changing macroeconomic context within which the sectoral reform programs evolved.

Macroeconomic Trends

In 1986 there was a mini-coffee boom which the Kenya government responded to in its typically pro-cyclical pattern. The budget deficit, that had been brought under control in the 1982-1984 period, again increased rapidly. By 1987, as the boom began to wear off, the budget deficit had increased to 6.6 percent of GDP (nearly 8 percent excluding grants). Government spending again topped 30 percent of GDP. In late 1987 Kenya once again returned to the Fund, negotiating an 18-month Stand-by that was supplemented in 1988 by "softer" support from the Structural Adjustment Facility and later, in 1989, from the Enhanced Structural Adjustment Facility. This stabilization program was designed in close coordination with the broader structural reform program.

A large influx of donor resources in the past five years has supported the stabilization and adjustment program and has facilitated continued high levels of economic growth. Foreign assistance and international financial institutions' transfers reached over $900 million in 1989, 14 percent of GDP, as compared to $420 million, or 8 percent of GDP in

1985. Increased resource transfers, rather than improved export performance or new private foreign investment, have funded the large increase in imports that has fueled both economic growth and continued high levels of consumption. In fact, Kenya's trade deficit reached $1 billion in 1989, due to a rapid deterioration in the terms-of-trade and continuing volume stagnation. This was partially offset by continuing strong growth in tourism receipts.

Underneath Kenya's apparently strong growth performance, stabilization efforts in the late 1980s have thus far been less successful than those of the early 1980s. While the budget deficit has been somewhat reduced since 1987, the level of government expenditures remains very high, and government has not been able to restrain the growth of public sector employment and the wage bill. Money supply growth accelerated sharply, especially in 1989, with consequent rising inflation. While official inflation figures place the current inflation rate at around 12 percent, there is widespread feeling that this figure systematically underestimates the true rate of inflation, which is probably closer to 20 percent.

At the center of Kenya's macroeconomic difficulties has been the failure to control the growth of expenditures and to target expenditures to meet their strategic goals. If, as mentioned before, Kenya's greatest success in policy reform has been to institutionalize an active exchange rate regime, its signal failure has been in not gaining more effective control of the budgetary process. If anything, it appears that the ability (and willingness) of the government to rein in spending in a period of crisis—as mentioned earlier, a long-time feature of the Kenyan policy scene—may be weakening.

A number of factors account for the inability of the government to control the growth of expenditure.

First, the country's rapid population growth and the government's political strategy of meeting demands for social services exert enormous pressure on social expenditures. Education spending has been rising rapidly as a result of population growth, the importance Kenyans place upon education (which generates tremendous demand for educational services), and recent structural changes that have added a year to primary education.

Second, the government's efforts to use public employment creation to attack the employment problem has been the major source of the rapid increase in recurrent spending. Between the late 1970s and the late 1980s wages and salaries increased from 50 percent to 70 percent of recurrent expenditures, increasingly squeezing out necessary complementary expenditures on operations and maintenance and thus lowering the overall efficiency and effectiveness of the public sector.

Third, interest payments on domestic debt are rising rapidly, as the government has shifted some deficit financing to nonbank sources through the issuance of Treasury bills and Bonds.

Finally, the government has failed to exert tight institutional control over both ministry spending and parastatal deficits. Kenya suffers from the "soft budget constraint" syndrome, whereby ministries and parastatal officials have been able to supplement their revenues without paying any penalties.[22] Similarly, government has failed to bring a sharp strategic focus to the budget process that would link expenditure increases directly to government's priority goals. It is in the budget process that the conflicts between economic reform and crony statism are most directly seen.

Recent econometric work by Killick and Mweiga has confirmed the close linkage between the budget deficit, rapid growth in the money supply, and rising inflation. They have suggested that the need to finance the budget deficit has been "squeezing out" private sector investment. They have also argued that, at least until 1988, there were substantial inconsistencies between Fund-supported stabilization programs and the government's stated goal of supporting an enhanced role for the private sector. Fund programs have facilitated government's growing share of GDP by putting tighter limits on overall domestic credit expansion (an average of 12 percent per year under all Fund programs in the 1980s) than on domestic credit to government (an average of 19 percent under all Fund programs).[23] Only in the 1988 program was this trend reversed.

The government's efforts to implement the structural reforms articulated in Sessional Paper No. 1 and in various programs with the World Bank and other donors have achieved mixed results. Important changes have been successfully undertaken in the areas of import simplification and liberalization, price decontrol, and financial market deepening. Reform has been tentative in the areas of fertilizer distribution and social service cost recovery. Reform initiatives are either yet to get off the ground or too weak to make a difference in parastatal and public sector restructuring, agricultural marketing, export promotion, and reducing the burdensome regulatory environment within which the private sector operates.

Import Simplification and Liberalization

Import policy reform was designed (1) to shift the provision of protection from quantitative restrictions (QRs) to tariffs, (2) to lower the overall rate of protection in order to encourage domestic efficiency and weaken the policy bias in favor of production for the domestic market, and (3) to improve the speed and reduce the uncertainty in procuring imported goods. With support from a World Bank Industrial Sector Adjustment Credit, between 1987 and 1989 substantial progress was made towards achieving each of these goals. The number of items covered by QRs was reduced in half, the number of tariff categories was reduced from 25 to 17, and the dispersion in rates of protection was narrowed. The overall rate of protection did drop, although not enough to alter more than marginally the overall bias towards domestic-oriented production. Most importantly, the process of import licensing was substantially streamlined. The average lag from license application to foreign exchange allocation was reduced from six months to three weeks. This has been a significant improvement for firms that depend upon imported inputs. The success in simplifying import procedures is important, among other reasons, because it involved actually reducing corruption opportunities that had formerly been associated with the importation process.

Price Decontrol

A second area of successful policy reform has been in price decontrol. Like most African governments, Kenya placed controls on a wide range of prices, ostensibly to protect the interests of poor consumers. However, price decontrols have had a constraining effect on business growth and were an important part of the skewed policy environment facing the private sector. Moreover, there was little evidence that poorer consumers were benefited, since producers tended to under-produce those goods. Business-interest associations had long argued in favor of freeing prices and, with support from USAID, increased their analytical understanding of price controls and entered into a dialogue with the government concerning their removal. Beginning in 1987 the government began progressively to withdraw from setting prices. By 1989 only 18 items remained under price controls. Price decontrol has been successful in part because it never had to confront the withdrawal of large subsidies and was implemented gradually, but firmly.

Financial Market Deepening

In financial market deepening the government, following a major banking crisis in 1986, initiated a number of reforms in 1987 and then in 1989 launched a major financial sector reform effort, supported by a $170 million World Bank sector adjustment credit. The main feature of the program is full interest-rate liberalization, which is supposed to be achieved by mid-1991. Thus far the government has achieved the targets set for making the interest rate structure more market determined. The government has also taken steps to liberalize the operation of the Treasury Bills market. In addition, a Capital Markets Authority has been set up with the goal of enhancing the returns from equity investment, thereby reducing the bias favoring debt instruments. A number of measures have been very recently introduced to achieve this goal. Not all efforts to reform the financial sector have been successful. Among the less effective efforts in this area so far has been improving the operations and finances of the Development Finance Institutions. Here there is continuing conflict between the Bank, which supports the privatization of such institutions, and the government, which wishes to continue their operations.

The future of interest rate liberalization is likely to be tied to the government's ability to lower the rate of inflation. Few observers believe that full interest rate liberalization will be politically feasible in the context of 20 percent inflation. Moreover, financial market deepening, while successful, can have only a limited impact as long as the government remains committed to maintaining its monopoly over foreign exchange transactions through the Central Bank. In the absence of change at this level, foreign private resource flows are unlikely to re-emerge. This is especially true given that in the broader region the trend has been to give some legality to parallel market foreign exchange transactions.

Fertilizer Marketing Reform

The major goal of policy reform in fertilizer marketing and distribution has been to increase the use of fertilizers by improving pricing, import procedures, and distribution. This has been supported by several donors, including the World Bank and USAID. The reform program sought gradually to relax the wide range of government controls and encourage the private sector to increase the supply of fertilizer. But, after initial success in increasing fertilizer usage, the program has failed in the past several years to generate any increase in fertilizer availability and usage.

The fertilizer program has been marked by mixed signals from government and a lack of coherent implementation. For example, in 1989 the government delayed the announcement of maximum retail prices, causing uncertainty among both distributors and consumers. In January 1990 the government abruptly fully decontrolled fertilizer prices, but thereafter the Kenya Grain Growers Cooperative Union (which controls nearly half of the market), substantially reduced, which led importers to shy away from purchases. Finally, the allocation system for commercial fertilizer imports continues to be manipulated by politically powerful individuals.

Social Service Cost Recovery

In social service cost recovery, reform efforts focused on introducing a cost sharing element into government hospitals and clinics. This program was supported by a cash transfer from USAID. The goal of the health care financing program was to place the provision of effective health care services to an ever widening proportion of the Kenyan population on a more sustainable financial basis, and to reduce the pressure on the budget from the health ministry. The political rationale for the program was that while the cost of health care would increase, there would be a visible improvement in the availability and quality of the service, thus making the cost increases acceptable. In early 1990 officials in the Health Ministry moved aggressively to implement the cost-recovery scheme. This generated fairly widespread, if diffuse, political opposition, and ministry officials, working closely with AID, began to work on making the scheme more transparent and speeding up the improvement side of the operation. In June President Moi, without consulting the Health Minister or his senior ministry officials, abruptly cancelled the cost-recovery scheme. This was widely seen as an effort to bolster his own political standing at a time of increasing political unrest and growing concerns over increases in the cost of living. Interestingly, the President's move did not appear to buy him much support. There were no major demonstrations in support of the President's decision. In their editorials on the move both non-government dailies raised the obvious question of where the money was going to come from to finance the health care system. Ministry officials have already begun to work with the donors to generate a new cost-recovery scheme

Parastatal Reform

The issue of parastatal reform and divestiture has been on the agenda in Kenya for most of the 1980s, but virtually nothing has been accomplished in this area. A brief examination of this issue sheds interesting light on the politics of economic reform. The parastatal sector in Kenya can be divided into three parts. First, there are a number of parastatals that provide "public goods," essential public services such as electricity and harbors, etc.. Second, there are a series of agricultural marketing boards to supervise and direct the rural economy. Finally, there are state enterprises in manufacturing and commerce, either fully or partially owned by the government or by one of the development finance institutions.

In 1983 the government set up a Task Force on Divestiture which, after a two-year study, found that most of the parastatals, especially those in manufacturing and commerce, are inefficient, suffer large financial losses, and require substantial budgetary support for their operations. It suggested a series of recommendations on restructuring and divestiture. The Task Force report was never released by the government. Parastatal issues have been on the agenda of most of the sector adjustment operations that the World Bank has undertaken in Kenya since 1986. A clear pattern has emerged. Each time a policy-based agreement is negotiated, the government announces its intention to privatize several parastatals. But in the course of implementation this is changed to a program of "strengthening." Despite the guidelines set out in the State Corporations Act of 1986 for such strengthening measures, there is little evidence that these efforts have succeeded in improving the performance of the parastatal sector.

Parastatal reform has been constrained by two broad political factors. First, there is a lack of consensus within the government over the need and desirability of a serious effort to confront the problems of parastatals given the employment and patronage that are generated through them. Top government officials fear political backlash. Second, the government fears that comprehensive divestiture might result in increasing ownership of assets by non-Africans, especially Asians, which would further exacerbate political and ethnic tensions. Moreover, the African ethnic group most able to participate in the market for divested assets is the Kikuyu, whereas the overall thrust of the Moi regime has been to limit Kikuyu influence, in both the public and the private sectors.

Maize Marketing Reform

Despite the fact that maize marketing reform was conspicuously absent from Sessional Paper No. 1, the increasing losses of the NCPB (which by 1986 accounted for over one-fourth of the total public sector deficit) led the Treasury to allow the issue to be brought back onto the agenda of negotiations with the World Bank in the preparation of the Agriculture Sector Adjustment Credit (ASAC) in 1986. In fact, Treasury again attempted to utilize the authority of the Bank to enhance its ability to rein in NCPB. In January, 1986, just prior to the ASAC negotiations, the Minister of Finance announced that maize farmers would be allowed to sell directly to the millers, effectively eroding NCPB's monopoly in the market. But six months after ASAC was signed, the Minister of Agriculture announced the restoration of NCPB's controls over the market. What had happened was that allowing farmers direct access to the millers had led to the millers purchasing less from the Board, forcing the Board to accumulate huge stocks, which further weakened their financial status and led them to be an even worse burden on Treasury.

In 1988 the government entered into an agricultural sector reform package with the EEC, the major element of which was a program of restructuring the NCPB to enable the liberalization of the maize market to occur without threatening the Board's ability to operate or increasing its burden on the budget. The issue of maize movement decontrol was also the key element in a recently negotiated cash transfer program from USAID and is an important component of the current negotiations between the government and the World Bank in its follow-on to ASAC.

It is clear that there are still major conflicts within the Kenya government over what to do about maize marketing reform. The politics of maize marketing reform are complicated, involving a range of factors inhibiting reform and others facilitating reform. Inhibiting fundamental reform are: the inertia and protective instincts of existing organizations, especially NCPB; the government's preference for a "supply-defined" food security strategy, which precludes from allowing NCPB to withdraw to the position of "buyer and seller of last resort"; the opposition of large farmers who have had privileged access to the above-market-level prices paid by NCPB; and the fact that local political demands are for the expansion of NCPB buying centers rather than for the opening up of the market to the private sector. Countering these are factors facilitating reform: the government's recognition of the inefficiencies in the current system and the increasing burden of NCPB costs on the budget; the interest of several key ministries, especially Treasury and Agriculture, in limiting the power of NCPB and its parent ministry, Supplies and Marketing; the protection for NCPB provided by the EEC program; and the increasing frustration of the donors over lack of progress on the issue.

Export Promotion

The fact that explicit export promotion incentives have been put on the structural reform agenda reflects an important change in thinking on the part of the Bank and the Fund. Until recently IFI orthodoxy held that macroeconomic policy adjustments, especially depreciation of the exchange rate and import liberalization, were the appropriate way to promote exports. Indeed, one of the causes of conflict between Kenya and the Fund in 1979 was the government's increase in funding for its export compensation (EC) scheme. But, by the late 1980s it was increasingly clear that the macroeconomic reforms that Kenya had undertaken were not generating more than a modest increase in exports and that the government's slow introduction of import liberalization would not generate an immediate export boost. The IFIs were willing to take a far less ideological approach to the issue and, indeed, began to see export promotion as an important priority. In 1990 the Bank negotiated an export sector credit to support initiatives in this area.

Thus far, export promotion efforts in Kenya have been marred by the favoritism that marks the regulatory environment more broadly. For instance, throughout the 1980s over half of the benefits generated by the EC scheme have gone to only four exporters, while the bulk of exporters have had no access whatsoever to the scheme. In 1988 the government introduced the manufacturing-under-bond (MUB) scheme to provide export manufacturers access to imported inputs at international prices. High operating costs and regulatory muddle have limited the impact of this scheme. In his 1990 Budget Speech the Vice President and Finance Minister, George Saitoti, put export promotion at the top of the government's agenda. Legislation was proposed for the creation of export processing zones, with the attendant set of incentives for investors. The government also announced that it was going to develop a duty exemption scheme to provide all exporters, not just those in MUB, with relief from import duty payments on inputs that are subsequently reexported.

The government's growing interest in export promotion has been driven both by the continuing expansion of the trade deficit and by the government's growing vulnerability to donor pressures. Earlier in the year intervention by the World Bank and other donors had blocked the building of the 60-story KANU Tower, a pet project of President Moi. But the government's commitment to export promotion is tempered by its continuing ambiguity towards the private sector, especially local Asian investors. For instance, the EPZ guidelines provide incentives for foreign investors but little to facilitate access by local investors. The government fears that local investors would use the EPZs as a means of capital flight. On the other hand, experience in other countries (especially those with fragile reputations) has demonstrated that the status of the local business community is seen by international investors as an important signal about the overall investment climate.

Regulatory Reform

For years the private sector in Kenya has been extensively regulated through a multi-faceted system of licenses, controls, and regulations. The government is publicly committed to reform in this area. But, as in to export promotion, recent efforts to reduce the regulatory burden within which the formal private sector operates have been too limited to have an impact, with the exception of the removal of price controls discussed above. Formal sector investment in Kenya is constrained by a time-consuming and highly discretionary approval and licensing system that has been very vulnerable to corrupt practices. To counter this, the government in 1988 set up the Investment Promotion Center (IPC). Although the IPC has been vigorously led, its lack of legal discretion in its relationships with other government agencies has limited its impact on speeding the investment process. Corporate tax rates have also been relatively high in Kenya. While the corporate profit tax rate has been marginally lowered in the past two years, again, this has been too little to send a signal to the private sector that government is committed to supporting them. Finally, procedures for remitting foreign payments for dividends, profits and capital gains have been stringent and slow in operation. Profit repatriation currently takes two years.

Thus, while the structural reform program initiated by the Kenya government in implementation of Sessional Paper No. 1 has begun to have a substantial impact in certain policy areas, in general it has been marked by slow implementation and poor coordination with the private sector. On so many of the major issues, from maize marketing to budgetary reform to parastatal restructuring, the tough decisions and difficult tasks of implementation still lie ahead.

Conclusions: The Politics of Reform in Kenya

In examining the evolution of economic restructuring efforts in Kenya, several important political themes and conclusions emerge. Some of these concern the domestic politics of reform, while others are about the international dimensions of reform. Let me first address some of the domestic themes and then move on to the international ones.

The Kenya case reinforces the now widely-acknowledged view that price-related policy changes are much easier to implement than policy reforms that involve changing organizational structures and behavior.[24] Thus, exchange rate and interest rate policy reforms in Kenya have gone fairly smoothly, while efforts to reform parastatal firms and to rationalize the budget process have been much less successful. An intermediate policy change has been the simplification of tariffs. This was more than a price change, but less than a major institutional overhaul. While it has been less successful than exchange rate and interest rate reform, it has been more successful than maize marketing reform efforts.

The domestic political context of reform in Kenya is substantially different from many other African countries that attempted some form of socialist development strategy and have suffered through a severe bout of economic decline.[25] The ideological environment is generally favorable for reform. Kenya long ago rejected socialism, and the reform process has not been identified either by the media or by government as being a foreign insertion. In fact, the local media approach to economic issues has more in common with that of the American media than of the media in most African countries. Recall the media response to President Moi's suspension of health care fees. Recently, the country's leading magazine, *The Weekly Review*, editorialized on the necessity for privatization: "The government has had this on the cards for almost a decade now. Everyone agrees that parastatals, and not just ailing ones, should be privatized."[26]

But if the ideological environment favors reform, the institutional environment constrains it. Unlike the vast majority of African countries, in Kenya there was little institutional degeneration (beyond financial problems) in the 1980s. Thus reformers in Kenya face entrenched institutions that are operating and delivering goods to political constituencies. Due to long-standing political stability and continuity, these institutions have strong linkages back into government. Thus, the government is often pulled in different directions, intellectually supportive of reform but wary about the political costs of such efforts and unwilling to confront major entrenched interests.

Finally, there is the linkage between economic reform and the racial and ethnic dimensions of Kenyan politics. While the government is publicly committed to promoting market forces and the private sector, it is politically difficult for government to undertake policies or actions that benefit Asians or Kikuyus. Racial interests in post-colonial Kenya were balanced by the government's active intervention to limit the scope of Asian businessmen and its creation of a wide range of parastatal enterprises. This precluded the escalation of racial tension that was witnessed in neighboring Uganda and responded to the political demands for indigenization. But the long-run economic costs were high, and it has made the issue of parastatal reform and privatization political dynamite, as well as generating ambiguities in the government's attitude toward the private sector. Unfortunately for government, the locally-owned formal private sector is still dominated by Asians and, to a much lesser extent, Kikuyus. In areas in which market forces are allowed to operate, almost inevitably Asians and Kikuyus are beneficiaries. Any initiatives for which Asians are immediate beneficiaries have political costs to the government. Because of his close links to a few Asian businessmen, President Moi is already widely perceived to be "pro-Asian." (This is not really the case, as the continuing high rate of Asian emigration from Kenya testifies.)

Opposition to assisting Kikuyus has very different roots, but is no less important. President Moi has gradually, but inexorably, squeezed the Kikuyus out of their hitherto predominant position among Kenya's African ethnic groups. He is wary of allowing them to expand their base in the private sector. Thus, while the government is intellectually committed to supporting the private sector, in practice the ethnic and racial considerations that still dominate Kenyan politics make it very difficult for this to happen.

A number of the very features of the Kenyan political economy that were sources of its success in the 1960s and 1970s have made the implementation of reform efforts in the 1980s more difficult. The political influence of large farmers led to high prices for agricultural producers and precluded the emergence of an "urban-bias" problem in Kenya in the 1960s and 1970s. In the 1980s, however, entrenched large-farm interests in the NCPB made maize marketing reform extremely difficult. Similarly, the instrument of the de-racialization of the large-farm sector, a key to post-colonial stability and prosperity, was the Agricultural Finance Corporation (AFC), which provides loans for the purchase of large farms. Many of these loans are in arrears, and the AFC faces overall financial crisis. But, due to the political weight of its constituency, it has been so far impossible to put the AFC back on a firm financial footing.

Another source of success in the 1960s and 1970s was government investment in education. This both increased the skill level of the work force, with benefits to the economy as a whole, and served to legitimize the government since the demand for education was (and continues to be) perhaps the most important political issue for the broad mass of Kenyans. In the 1980s, however, the fiscal implications of large educational expenditures have become a major problem, and the government has found itself squeezed between the imperatives of budgetary management and those of the continuing expectations of expanding government support for education.

This is not to say that all of the elements of the post-colonial political economy had a negative impact on reform. As mentioned, the fact that Kenya never had a substantially overvalued exchange rate facilitated the depoliticization of an automatic exchange rate adjustment mechanism in the 1980s. In general, the lack of infrastructure deterioration and the continuing strong human resource base have enhanced the ability of the economy to respond to economic reform initiatives.

One interesting political feature of the Kenyan reform experience has been the changing role of technocrats. In the early phases of reform, a major part of the politics of reform was conceived by the donors as supporting the technocrats against the instincts (and often interests) of the politicians. Recall the important role that the troika of Philip Ndegwa, Harris Mule and Simeon Nyachae played in the 1982-1986 period. In contemporary Kenya technocrats play a less direct role in the process. Senior civil servants are increasingly politicians in their own right, and technocratic competence is becoming less significant as a criteria for promotion to the very top levels of the public service.

Today, the key individual in the economic reform program is the Vice-president and Finance Minister, George Saitoti. Saitoti's role in Kenyan politics is quite interesting. Under President Moi the regional "big-man" system that marked Kenyan politics under Kenyatta has been disbanded. Moi has moved to make it illegitimate for politicians to have independent political bases that weaken their dependence on the president himself. A professor of mathematics at the University of Nairobi, Saitoti was brought into government as a technocrat, becoming Finance Minister in 1983. This fits Moi's style of promoting individuals who owe their influence directly to the president. In 1988 Saitoti was named vice-president, historically a weak and insecure position. But Saitoti has carved out an independent political base for himself, not within Kenya, but as intermediary with the international donors. Unlike virtually every other senior government minister, Saitoti has not participated in the increasing sycophancy that surrounds President Moi. But his is a very tenuous role. On the one hand, Saitoti must deal with increasingly skeptical donors, upon whom the Kenyan government is financially dependent. On the other hand, he must not appear disloyal at a time when the government is hostile to the international pressures that are being placed upon it, both for more rapid economic reform and for political liberalization.

This leads us to the international dimensions of the politics of reform: evolving donor relations and the impact of donor conditionality in Kenya. One of the interesting elements of the Kenya case is that throughout the 1980s Kenya has had a much smoother relationship with the IMF than it has enjoyed with the World Bank. This is the opposite of the pattern in much of Africa.[27] I believe that the explanation for this is quite straightforward. Unlike most African countries, Kenya has historically had a fairly conservative approach to overall macroeconomic management. Its senior policymakers and technocrats always spoke the "same language" as Fund officials. The Fund's focus on the exchange rate, which in Kenya was never seriously overvalued, further minimized the potential for conflict. On the other hand, the fact that the Kenyan patterns of an inward-oriented trade policy and public-sector-led employment strategy never really broke down has made structural reform, the bailiwick of the World Bank, very problematic.

There appear to be a number of cycles at work in Kenya's relations with the donors on economic reform issues. One cycle is at the individual program level. Here the following pattern emerges. In the negotiation phase there is an apparently strong government commitment to reform and the initial implementation of the reforms under discussion. This is followed by lapses and delays in the implementation of the reforms agreed to, once the resource transfer has been disbursed. This in turn is often followed by renegotiation and weakening of the conditionality involved in order that the program not be cancelled. At the broader level of overall donor relations, there has been an enthusiasm-frustration cycle, whereby in 1980-82 the donors were enthusiastic about economic reform in Kenya, in 1983-85 they were frustrated, in 1986-88 their enthusiasm was renewed, only to be increasingly frustrated again in 1989-90.

Because of her relatively good economic performance and long history of dealing with the donors, the Kenya government has been able to exert considerable influence in its relations with the donor community.[28] As my discussion of the policy reform program has emphasized, the government has received a very high volume of policy-based resource transfers given the quite limited degree of policy reform actually accomplished. As mentioned, the World Bank found it impossible to avoid large-scale involvement in Kenya, given its overall thrust towards structural adjustment and the lack of other countries in East Africa in which to invest. Kenya's leverage over the donors was further enhanced by its security ties to the United States, which expanded in the early 1980s.

There are signs that the balance of influence in Kenya's relations with the donors may be shifting away from the Kenya government. First, Kenya is no longer at the cutting edge of policy reform in Eastern and Central Africa. Uganda is undertaking a major reform program, involving financial liberalization through legalization of the parallel market for foreign exchange. There are signs that Tanzania, which has had a reform program since 1986, will be deepening its reform initiatives in the near future. Old-line socialist stalwarts have recently lost key positions of influence in both the government and the ruling party. Finally, Zimbabwe is embarking upon a major reform effort, partially in response to the impending changes in South Africa. Thus, the donors (especially the World Bank) are likely to be under much less pressure to maintain their high level of involvement in Kenya in the absence of improved implementation of reform.

Second, the political ties between Kenya and the donor community are fraying. Given the end of the Cold War, Kenya's strategic significance (always questionable) has completely fallen away. Furthermore, while Kenya used to be looked upon as a relatively democratic country in a continent marked by despotism and anarchy, it is now at the forefront of African countries that are actively resisting both external and domestic pressures for political liberalization. This further weakens Kenya's ability to influence the terms of its relations with the donors. A sign of things to come may have appeared in the recent Consultative Group meeting in Paris, at which the donor community expressed frustration over Kenya's failure to make tough decisions concerning economic reform and expressed their belief in the linkages between economic reform and political liberalization. Donor commitments to Kenya, while remaining very high, fell short of what had been identified as the external financing required for continued rapid growth.

What has been the impact of donor conditionality on economic restructuring in Kenya? The impact can usefully be divided into themes involving outcomes and themes involving process. Calculating the impact of policy-based lending and donor assistance on economic outcomes is a methodologically challenging issue. Conditionality agreements involve both policy changes *and* resource transfers. Disentangling the impact of these two elements is very difficult. Ideally, one would wish to answer three questions. First, what has been the impact of donor conditionality on the policy environment. Second, what has been the impact of these policy changes on economic outcomes. Third, what has been the impact of the financial resources transferred.

Addressing these questions involves undertaking a series of difficult counter-factual assessments. What would have happened in Kenya had the financial resources that went along with the conditionality agreements not been forthcoming? Would Kenya have maintained its debt service obligations in the absence of such resource transfers? What would have been the policy actions of the Kenya government in the absence of conditionality? Finally what would have been the economic outcomes in the absence of the policy changes that were engendered by the conditionality-based agreements?

The difficulty of constructing realistic counter-factuals makes the systematic assessment of the impact of conditionality on economic outcomes in Kenya problematic. But I believe that the analysis presented in this paper does lead to the conclusion that the resources generated by policy-based lending and donor assistance have had a large impact on recent economic growth, while the conditionality "imposed" by the donors has had a much more limited effect. While Kenya has generally avoided the gross economic distortions that have plagued other African countries, this has been due far more to deep-seated internal features of the Kenyan economy rather than to donor efforts to use conditionality to leverage policy change.

The experience of donor conditionality in Kenya appears to fit into a category of countries that did not witness severe economic deterioration and in which the international donors have been successful in putting economic restructuring on the policy agenda, but much less successful in generating comprehensive economic restructuring.[29] In these countries the "game" elements of conditionality in which the benefits are defined in external resource terms rather than in improved economic performance have been the strongest. In these countries there is also some evidence that high levels of external support have played an ambivalent role in the *process* of reform. In Kenya external resources appear to have had their greatest impact when they were withdrawn! Serious stabilization efforts followed the cancellation of Fund Stand-bys in the early 1980s. Serious efforts at structural reform followed the Bank's decision not to go forward with SAL III. The high rates of resource transfers over the past several years, on the other hand, have unduly strengthened the exchange rate, keeping domestic costs too high to provide much of a supply response to the reforms that were undertaken and have allowed the government to postpone the tough decisions that must be taken if the fiscal balance is to be restored.

How then to sum up the process of economic reform in Kenya? Is the glass half empty or half full? Defenders of Kenya's performance tend to compare it to other African countries and see real economic achievements in a relatively resource-poor country. For them, the distortions and restrictions that have persisted in the 1980s are the inevitable cost of political stability and pragmatism and should not be seen as major problems.[30] Critics, on the other hand, argue that comparisons to other African countries inevitably breed complacency and that Kenya should instead be comparing itself to the Asian newly industrialized countries. In the words of a recent speech by the Chairman of the Kenya Association of Manufacturers, Lucas Ndungi, to a high-level meeting of government and private sector officials, "We Kenyans spend too much time in self-congratulation. We have to stop being a nation of talkers and start being a nation of doers."

Notes

1. Some viewed this success in positive terms; see the World Bank, *World Development Report*, Washington, 1983. Others viewed such success more critically; see Colin Leys, *Underdevelopment in Kenya*, London, Heinemann Books, 1975.

2. See Diana Hunt, *The Impending Crisis in Kenya: The Case for Land Reform*, Aldershot, Gower Press, 1984.

3. Government of Kenya, *Economic Management for Renewed Growth*, Nairobi, Government Printer, 1986.

4. Dani Rodrik, "How Should Structural Adjustment Programs Be Designed?", *World Politics*, July, 1990

5. G.K. Helleiner, "Structural Adjustment and Long-Term Development in Sub-Saharan Africa" , unpublished paper, 1989.

6. See Paul Mosley, *The Settler Economies: Studies in the Economic History of Kenya and Southern Rhodesia*, Cambridge, Cambridge University Press, 1983.

7. For the presentation of the urban bias argument, see Michael Lipton, *Why Poor People Stay Poor*, London, Temple Smith, 1977.

8. See Nicola Swainson, *The Development of Corporate Capitalism in Kenya*, Berkely, University of California Press, 1980.

9. See Colony and Protectorate of Kenya, *A Plan to Intensify the Development of African Agriculture in Kenya*, Nairobi, Government Printer, 1954.

10. For a full discussion see, Gary Wasserman, *Politics of Decolonization*, Cambridge, Cambridge University Press, 1976.

11. See David F. Gordon, *Decolonization and the State in Kenya*, Boulder, Westview Press, 1986.

12. Government of Kenya, *Report and Recommendations of the Working Party on Government Expenditures*, Nairobi, Government printer, 1982.

13. A. Duncan and P. Mosley, Aid Effectiveness: A Kenya Case Study, unpublished paper undertaken for the IMF/World Bank Development Committee, 1984.

14. Tom Callaghy, "The State and the Development of Capitalism in Africa," in D. Rothchild and N Chazan, *The Precarious Balance*, Boulder, Westview Press, 1988.

15. See Jennifer Widner, *The Rise of a Party State in Kenya: From "Harambee" to "Nyayo"*, Berkeley, University of California Press, forthcoming.

16. *Ibid*, Duncan and Mosley.

17. World Bank, *Program Performance Audit Report: Kenya First Structural Adjustment Credit*, Washington, World Bank Operations Evaluation Department, 1984.

18. *Ibid.*, Government of Kenya, *Report and Recommendations of the Working Party on Government Expenditures.*

19. *Ibid.*, World Bank, *Program Performance Audit Report: Kenya First Structural Adjustment Credit.*

20. World Bank, *Program Performance Audit Report: Kenya Second Structural Adjustment Loan and Credit*, Washington, World Bank Operations Evaluation Department, 1985.

21. See World Bank, *Report on Adjustment Lending*, Washington, World Bank, 1988.

22. For a discussion of the soft budget constraint, see Janos Kornai, "The Soft Budget Constraint and the Failure of Socialism in Eastern Europe," *Journal of Economic Perspectives*, 1990.

23. Tony Killick and Francis Mweiga, "Monetary Policy in Kenya," unpublished paper, 1989.

24. See Barbara Nunberg, *Public Sector Management Issues in Structural Adjustment Lending*, Washington, World Bank Discussion Paper No. 99, 1990.

25. See Thomas Callaghy,"Lost Between State and Market," in J. Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, Princeton, Princeton University Press, 1990.

26. "Editorial", *The Weekly Review*, Nairobi, 10 October 1990.

27. See Carol Lancaster, "African Economic Reform: The External Dimension," Washington, Institute for International Economics, 1991.

28. For an analysis of changing patterns of donor and recipient influence in Africa, see David F. Gordon, "Debt, Conditionality and Reform: The International Relations of Economic Restructuring in Sub-Saharan Africa," in Tom Callaghy and John Ravenhill, eds., *Hemmed In: Responses to Africa's Economic Decline*, New York, Columbia University Press, forthcoming.

29. See Paul Mosley, Jane Harrigan and John Toye, *Aid and Power*, London, Routledge, Kegan Paul, 1991.

30. *Ibid.*, Paul Mosley's case-study of Kenya in *Aid and Power* is sympathetic to this interpretation.

Some Basic Facts About Mali

Present Official Name: Republic of Mali

Year of Independence: 1960

Pre-Independence Status: Part of French West Africa

Government

Capital City: Bamako
Head of State: Lieutenant Colonel Amadou Toumani Touré
Head of Government: Prime Minister Soumana Sako
How/When Present Government Came to Power: Popular Uprising (March 1991)
Number of Officially Permitted Political Parties: Without Limitation

People

Population: 8.5 million (World Bank estimate for mid-1990)
Average Annual Population Growth (%): 2.7%
Major Languages: French (official), Bambara, others
Religions: Muslim (80%), traditional belief systems (18%), Christian (1-2%)
Number of Universities: 0

Economics

Area: 478,841 sq miles (1,240,192 sq km)
GDP ($): $2,080 million (World Bank estimate for 1989)
GNP per capita ($): $270 (World Bank estimate for 1989)
Major Seaports: landlocked
Major Exports: cotton, livestock
Other Present or Potential Sources of Income: gold, marble, phosphates, kaolin, salt, limestone, uranium, bauxite, iron ore, manganese, tin, and copper
Major Imports: miscellaneous manufactures, machinery
Major Trading Partners in Descending Order of Importance:
Imports: Côte d'Ivoire, France, West Germany, Senegal
Exports: Algeria, Belgium/Luxembourg, Canada, France
Total External debt ($): $2,157 million (World Bank estimate for 1989)
Debt Service Ratio (Total Debt Service as % of Exports of Goods and Services): 15.0% (World Bank estimate for 1989)
Monetary Unit: CFA franc

Armed Forces

Size/Breakdown: Active 7,300 (army 6,900, navy 50, air force 400), paramilitary and police 3,000 (IISS estimate for 1991)
Annual Defense Expenditure ($): $46 million (1989)

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Chapter 7
The Politics of Economic Policy Reform in The Republic of Mali

Benjamin H. Hardy

PART I. BACKGROUND

Although Mali is experiencing a political revolution that began early in 1991 and witnessed the overthrow of the second Malian republic on March 25, the government's economic reform program has scarcely been altered as a result. It remains to be seen whether the political transformation now underway will lead to improvements in economic performance and living standards. Certainly many Malians believe their country's past economic development failures result from the former government's mistaken national policies, ineffective leadership, and corruption; the resulting frustrations account in part for the violence of the recent political conflict. Malians believe a democratic system of government and greater exercise of human rights will free them to achieve rapid progress in economic development. On the other hand, Mali's underlying physical and social disadvantages, although aggravated by policy errors, have had much to do with making past economic progress slow and painful. Constraints on development of the private sector will be difficult to overcome. If Malians are disappointed in their expectations of economic improvement (for themselves, their families, and their country), in time they may conclude that democratic institutions have failed them. In that case, the outlook for both political stability and economic development in Mali will be perilous.

Mali's Economic Environment

Constraints on Development

The Malian economy has long counted among the world's least developed. According to the World Bank, it generates per capita income of between $200 and $300 a year. Worse, it provides the average Malian only about 2,000 calories per day, despite the fact that Mali is overwhelmingly an agricultural country (generating almost half of gross domestic product), since about 80 percent of the people are engaged in subsistence food production, which accounts for 30 percent of GDP.

Despite specific instances of real progress, these figures suggest most Malians' lives have improved very little during the country's more than thirty years of independence; indeed, in the countryside economic life has not changed appreciably during more than a century of increasing contact and communication with the industrial world.

The reasons for Mali's failure to develop are multiple, complex, and interrelated: there are physical constraints of geography, climate, and natural resources; human constraints of population distribution and growth, ethnicity, culture, and education; and vulnerability to outside events, including changes in global economic activity. These will be enumerated below. All have been accentuated by problems of political stability and effectiveness of leadership, especially in the formulation and execution of economic policies; these will be examined in the balance of the paper.

Physical Constraints

Geography. Within its large, sprawling, sparsely settled, landlocked territory, Mali's geography creates formidable economic and administrative problems. Transportation and communication lines, internally and with the rest of the world, are long and expensive. The railway is old and rolling stock is difficult to maintain; there are relatively few improved roads; rocks and shoals render long stretches of the rivers useless to navigation, especially during the dry season; and domestic air service has been reduced to occasional charter flights. Since only a small part of the country's hydroelectric potential has been harnessed, many small towns and most villages lack electrical power. There are few radios and telephones; television service is confined to the capital at Bamako.

Climate. Although a hot and arid country, Mali's greatest assets are rain-fed range and farmlands and the seasonal flow of its rivers, notably the Niger. Desert covers almost half the country, with the other half dependent upon limited rainfall, most of which occurs during a three-month season each year. Aside from irrigated rice plantations in the Office du Niger (in the river's inland delta) and cotton fields in the south, Mali is largely an economy of primitive subsistence farming, livestock herding, and river fishing, of fields, herds and nets tended by every available family member.[1] Most of the grain, the main staple of the Malian diet, is consumed on or near the family plot; only about 15 percent enters the market. In good years, small producers can feed the whole population, but when the rains fail, as they did for several years in the early 1970s and again briefly in the early 1980s, the economy ceases to exist for millions of people, who watch their crops wither and their livestock waste and die. Unless foreign food aid reaches them, their children and elderly parents die, too.

This uncertainty in the supply of life-sustaining goods calls into question Mali's long term economic viability. Drought occurs in one or two years out of ten, wiping out achievements accrued through years of tenacious labor.[2] The accompanying environmental degradation—exemplified in the southward encroachment of the Sahara desert, which in drought periods covers more than half the country—intensifies the difficulty of recovering from such losses.

Fortunately, during the past five years rainfall has often been above normal, producing sufficient food grains (chiefly millet, sorghum, maize, and rice) to meet domestic needs, as well as a substantial output of cotton (roughly 250,000 tonnes a year), the country's most important export (earning about $100 million a year on world markets). Livestock is the second largest export, destined mainly to neighboring countries. Mali's gross domestic product is about $2 billion a year, nearly half of it generated in agriculture. Services, including government, account for nearly 40 percent, while industry contributes only about 12 percent.

Natural resources. Mali's lack of dependable water supplies makes its agricultural development problematical. Furthermore, although only a fraction of the arable land is under cultivation, any attempt to exploit it reveals the fragility of the environment, raising questions about how many people the country ultimately will be able to support: pastures in the Sahelian region are easily overgrazed, trees are cut for firewood faster than they can be replaced, irrigation of the Niger's central delta requires careful and expensive engineering of water distribution, soils in the south have been leached of nutrients by eons of heavy, although short, seasonal rains, and the country's identified phosphate fertilizer deposits have thus far proved uneconomical to develop. However, gold mining aside, Mali's dearth of identified, commercially exploitable mineral resources leaves the people few alternatives to agro-pastoral occupations.

Social Constraints

Population. The population of 8.5 million—unevenly but thinly distributed, debilitated by tropical diseases, in many instances malnourished—grows by 2.7 percent a year despite very high infant mortality. The increase absorbs much of the economic gain realized during good years. As consumers, Malians are too few and too poor to be a sufficient market for many local manufactures. As workers, they lack education (83 percent are illiterate) and skills to gain even local competitive advantages over most foreign industries. Human resources are woefully underemployed, due to the lack of relevant education and training, proper nutrition, sanitation, and medical care. The vast majority of the people live in rural villages, where basic infrastructures, including clean water, electricity, roads, and communications are rudimentary or nonexistent. Rural Malians have been exposed to transistor radios, motorbikes, vaccinations, taxes, government regulations, and political campaigns, but contact with foreign artifacts, procedures, and ideas has had relatively little effect on their routine lives.

In the towns and cities, by contrast, live the members of Mali's small elite, who have been radically transformed through greater access to education, training, and imported goods and services. Repeated droughts have also caused an exodus from marginal rural areas into the towns and cities, creating whole communities of an underclass of the unskilled or semiskilled, the unemployed and underemployed, that overwhelms the government's ability to provide housing, water, electricity, transport, sanitation, health and medical care, education, and jobs. Although it is among these workers that small, informal enterprises tend to be formed, for many life is a precarious struggle for survival. Only a handful of Malians live in material comfort as it is measured in the industrial West. Even within the tiny elite, the disparity between those at the top and those at the bottom has been enough to stimulate political struggles and, recently, to overthrow the government in power.

Because of the harshness of their environment, the peasants are unable to produce the surpluses needed to support an urban society (including an overgrown governmental and state-enterprise bureaucracy) or the substantial imports that sustain it. For such luxuries, Mali must look to foreign donations and loans.

Ethnicity. Mali enjoys a degree of ethnic tolerance that belies an underlying tribal diversity; Malians rarely practice widespread discrimination on an ethnic basis. Pre-independence political rivalries developed along ideological rather than ethnic lines, with the result that today tribal and other ethnic groups generally lack political organization and strong leadership, making them unlikely bases for opposition to the government. Legislation introduced following the change in government in March 1991 and intended to govern political party formation and multiparty electoral campaigning specifically prohibits parties based upon ethnic group membership.

There is a striking exception to the pattern of ethnic harmony. Mali's northern reaches are home to the nomadic Tuareg, who traditionally remained aloof from their southern neighbors except for occasional attacks to take property and slaves. They still migrate among oases in Mali, Niger, Algeria, and Libya and occasionally raid the settlements of their more sedentary neighbors, showing scant regard for police and customs agents along the frontiers. A century of contact with the outside world has not entirely erased the resulting enmities, which provoke sporadic conflict in Mali, Niger, and Algeria; violent incidents took place at Tombouctou as recently as June 1991. In January 1991 the Traoré government signed an agreement in Algeria giving the Touareg in Mali new autonomy and promising greater economic aid. The transition government has not yet taken a firm position on how it intends to deal with this longstanding, deeply rooted problem. The presence of representatives from two Touareg organizations on the transition government's executive body (the CTSP; see Part IV, The Malian Revolution, below) implies there will be an effort at conciliation. The durability of the conflict, however, suggests that the government will have to maintain security forces in northern Mali to contain it, diverting scarce resources from the economic reform effort.

Culture. Regardless of ethnic differences, Malians share certain cultural patterns that strongly influence how much government is able to accomplish in promoting economic development. Particularly in rural areas, tradition imposes a strong check on adoption of modern production methods, to say nothing of changes in social organization, whose focus is the extended family and the community (usually the rural village, but also the urban commune). The individual looks to these institutions for material and emotional support and is expected to contribute to them in accordance with ability.

Although women make important economic contributions to both the family and the community, especially through their farm labor in rural areas, Malian society gives primacy of place to males, who exercise social authority, but also acquire responsibility, in proportion to their control of economic resources. The more successful a man becomes, the more is expected of him; any increase in wealth or power brings a concomitant increase in the number of people who can claim his support.

Just as a successful farmer finds his household in the village gaining members who consume his surplus, a successful civil servant finds with each promotion that more kinsmen arrive from his native village, each new dependent expecting help in finding food, shelter, and employment. If a man becomes wealthy or dispenses substantial government resources, close relatives may feel free to quit their jobs. Officials often rely upon their colleagues for help, trading favors to fulfill familial responsibilities: an official in the ministry of health sends a nephew to work for his friend at the ministry of public works, who sends his sister to work at the chamber of commerce; the concept of merit employment becomes lost in the process. Moreover, the distinction between an official's personal resources and the government's resources under his control can easily become blurred.

What a foreign observer perceives as corruption, therefore, may be instead the manifestation of a deeply rooted pattern of community responsibility. If one diverts official resources, one must do so to spread them to those who otherwise would have little. Malians themselves esteem those who fulfill such responsibilities, overlooking the cost to society at large, whereas they denigrate those who perform their official duties in strict propriety even at the risk of curtailing generosity to their dependents. (On this point, Mali's new prime minister suggested a need to redefine good, versus bad, official behavior in a June 1991 television speech that stimulated much public comment.) However, Malians also deeply resent diversion of resources for the enrichment of beneficiaries; the essence of corruption lies in the resulting disparity of wealth. Although the Traoré clan and its beneficiaries probably did not accumulate great wealth in Western terms, their use of political power to live conspicuously well was viewed as proof that the president himself was utterly corrupt. Besides, the president, as the highest official in the land, is in a sense chief and *paterfamilias* for every Malian, not just for his own family and proteges.

Cultural values also affect Mali's economic development directly. Where any surplus is quickly absorbed by additional consumers, producers lack much incentive to add productive capacity. Trade, because of its rapid turnover of capital, is a much more attractive activity than production; even traders, however, have heavy social obligations, making capital accumulation and transfer to heirs difficult. As a result, saving rates are very low, and access to credit in the informal sector is very limited.

Education and training. The high rate of illiteracy is the most formidable but not the only learning deficiency hampering economic development. Although illiterate, rural Malians acquire all the economic skills required to produce at the subsistence level, but in times of drought or other emergency, these are insufficient for survival, leaving millions dependent on food aid. Primary schooling reaches less than 25 percent of school age children; teaching quality is very uneven. Access to secondary schooling (for 4 percent) is controlled by examinations that winnow out those inadequately prepared, who generally find themselves unemployed. Secondary school graduates compete for the few places available (1 percent of the age group succeed) at Mali's specialized training colleges (administration, engineering, medicine/pharmacology, teaching, rural technology and applied research).[3] Those seeking university-level education must go abroad, usually to Europe or North America. College and university graduates, especially those educated in the humanities, also often find themselves unemployed, as the government no longer offers civil service or parastatal positions to everyone with advanced education, and demand for advanced skills is limited by the lack of literate primary school graduates who would provide a qualified work force for modern technical enterprises. University graduates in the professions have the option of practicing independently or seeking government positions through competitive selection, but even some of these are unable to find jobs.

Thus, despite (in part because of) the country's desperate need for broader basic education, there exists an elite class of literate Malians possessed of impressive credentials whose intellectual achievements nonetheless fail to gain them a satisfactory income. These unemployed or malemployed graduates were in the forefront of the recent revolution. Many of them have high expectations of Mali's transformation into a multiparty democracy, expectations that include opportunities to create or make careers in productive private enterprises. Like their counterparts in Mali's traditional commercial class, however, most lack the skills to organize or manage modern, private production.

Vulnerability to Outside Forces

Mali's remoteness from world markets works to its disadvantage, but does not protect it from economic changes that are taking place in the global economy. As an exporter of basic commodities produced in the agro-pastoral and mining sectors, Mali is quite vulnerable to foreign business cycles and technological changes that cause fluctuations in the cost and availability of bank loans and other financial resources, rates of inflation, and foreign exchange rates, to say nothing of prices for both export commodities and imported manufactures. As the value added to the world's production increasingly depends upon advanced technology rather than materials and unskilled labor, Mali's lack of competitive advantages further undermines its terms of trade. Lack of production skills and insufficient (as well as inefficient) capital investment are thus basic to Mali's lagging development; it must focus instead on incremental improvements in domestic production in the hope that global conditions will permit the enjoyment of some of that growth in the form of higher living standards.

Historical Evolution of Politics and Economic Policy

During the colonial era and for about the first fifteen years after Mali's independence, French domestic economic policy was based upon *dirigisme* (state direction); although the French economy depended upon a substantial private sector throughout modern history, its economic policy was traditionally *dirigiste*. Applied within the African colonies, this philosophy led the French administration to concentrate on maintaining order and on increasing economic productivity, both to pay the costs of the colonial presence and to generate benefits for the metropole. The French introduced radical social and technical innovations in an effort to generate export revenues (pushing groundnut and cotton production) without modernizing the subsistence economy. Such infrastructure as was provided was intended to support the production and flow of goods to the metropole, and only incidentally to overcome the country's harsh geographic and environmental limitations.

Early Political Development

What to do about poverty was a political issue well before independence. Following World War II, when the French fourth republic provided a framework for African political activity and stimulated aspirations for self government, Malian politicians were already convinced of the need to replace colonial institutions with others better suited to Africa's economic development needs. However, there was widespread disagreement over which institutions to create.[4]

In its piecemeal military conquest of West Africa, the French colonial government had acquired vast territories, the home of diverse ethnic groups, which it administered as the federation of Afrique Occidentale Française (AOF). During the 1950s, some African leaders in the AOF hoped to see the federation become a unified, independent nation-state, but economic realities dictated otherwise. In 1958, the constitution of the new fifth French republic abolished the AOF and allowed the former colonies, now states in the Communauté Française, to determine their own course toward independence. Felix Houphouët-Boigny of the Rassemblement Démocratique Africaine (RDA) believed a new, independent federation would drain resources from relatively wealthy Côte d'Ivoire.[5] He therefore opted to have Côte d'Ivoire stand alone, removing a key reason why other colonies in the AOF might have chosen federation.

Nevertheless, the idea of a federation died hard. Leopold Sedar Senghor of Senegal and Modibo Keïta of Soudan negotiated formation of the Mali Federation, which received its independence from France on June 20, 1960. On that date, a number of fundamental issues between the two leaders still had not been resolved. The Senegalese focused attention on economic development issues, while the Soudanese viewed all economic matters as essentially political. Within weeks the two leaders and their key supporters had stalemated, and on August 22 the Soudanese were sent home from Dakar to Bamako aboard a sealed train. Although Keïta tried vainly for several weeks to break the impasse, his Union Soudanese/RDA (a break-away branch of Houphouët's party) voted the country's independence as the Republic of Mali on September 22, 1960.

The First Republic

President Keïta quickly demonstrated what he and his party meant by the primacy of politics over economic development.[6] A former schoolteacher, seasoned party organizer, and politician, the new president was a doctrinaire Marxist who set about centralizing government control over virtually all economic activities. In order to root out vestiges of French power, he cancelled military assistance agreements, ousted French advisers, and withdrew Mali from the French franc zone. Handing over trade monopolies to new state commercial firms, he squeezed out the French import/export houses. To remake the economy, he sought trade, development aid, and military assistance from communist countries, links that brought in few imports but did obtain several industrial projects and some used weapons and equipment. He created state-owned entities to operate the industries, thereby entrenching state control over most production, including marketing and processing of the country's agro-pastoral products. Private economic activity of any kind was suspect, and private commerce was vigorously discouraged. By the mid-1960s he had begun to collectivize agriculture.

Economic Consequences

Keïta's measures produced economic disaster. State firms lost substantial sums, farm and livestock production diminished, exports plummeted, and the Malian franc lost most of its value, not least because there were no goods in the markets. These results produced an increasingly sharp ideological dispute among Keïta's supporters. Those on the right pressed for moderation, including a rapprochement with the West, while those on the left argued for even more radical changes. Unwilling to commit fully to one course or the other, the president pursued two diverging paths.

Unable to finance essential imports, Keïta invited in French financial advisers (who demanded government and parastatal spending cuts) and rejoined the franc zone. In 1967 the Malian franc was relinked to the French franc at a 100-to-1 parity. He counterbalanced these moves with steps to radicalize the country's political and social institutions. He abolished the US/RDA politburo and replaced it with a committee of hardliners, pressed ahead with collective farming, and, aping China's Great Cultural Revolution, set up a people's militia modeled on Mao's Red Guards. After the national assembly was dissolved in January 1968, he ruled by decree.

Political Reaction

The popular response to these measures revealed a similar divergence of interests. The government had created a state grain marketing board, OPAM (Office des Produits Agricoles du Mali), in order to increase rural incomes, supply cheap food to the towns, and generate a surplus to finance other development investment. In practice, the first objective was sacrificed to the other two, and official producer prices were fixed at very low levels. The farmers, who resented government intervention in the marketing of their crops, began refusing to sell to OPAM. In June 1968, after fifteen private grain traders were arrested at a village near Bamako, a mob of farmers attacked the local jail to release them. Several people were killed or wounded.

On the other hand, members of three US/RDA organs—the trade union federation, UNTM (Union des Travailleurs du Mali), the youth organization, and the militia—became increasingly radical, demonstrating often in support of the president's policies. Keïta ordered the army to provide training to the militia, but refused a demand by regular officers that he put the trainees under army control. Militia members took to harassing regular army soldiers, many of whom were veterans of the French army and thus, from the militia's perspective, not ideologically acceptable. Insults and annoyances from the militants especially provoked young army officers, who sparked a coup d'etat on November 18, 1968.

Military Government

The fourteen coup-makers, three captains and eleven lieutenants, had taken advantage of the growing unpopularity of Keïta's economic policies. Nevertheless, during the first hours following the president's arrest the ringleaders tried to persuade him to remain in office as head of state, asking him to dismiss his most radical ministers, rein in the militia, and moderate his most radical economic policies. When he refused to accede to the third demand, they sent him to prison (where he died in 1977). They then created an executive body, the Comité Militaire de Libération Nationale (CMLN), under the presidency of Lieutenant Moussa Traoré.

Moussa Traoré's Emergence as Leader

A soldier's son born in September 1936 near the army camp at Kati, just north of Bamako, Traoré had enlisted in the French army at age eighteen and attained the rank of sergeant before attending officer candidate school at Fréjus, from which he graduated as a second lieutenant in 1960.[7] By mid-1968, he was deputy to the commander of the inter-service school at Kati, Captain Yoro Diakité, who recognized an opportune moment and recruited his colleagues for a military takeover. The plot was betrayed to Keïta, who reportedly planned a large number of arrests upon his return from an economic conference at Mopti. While Diakité temporized, Traoré and the other junior officers seized the initiative.

Neither indecisive nor hotheaded, Traoré appeared well suited to maintain equilibrium among the successful conspirators. However, although Traoré was named president of the CMLN, Diakité became its first vice president and prime minister of Mali, heading a cabinet that contained several civilians, including economic moderates who had served as ministers under Keïta. The CMLN suspended Mali's constitution, abolished the militia, dissolved the UNTM, reduced government interference in people's lives, and justified the power grab by promising to improve economic performance.

Having acted primarily from personal ambition, the young officers found constant maneuvering necessary to protect their positions from outsiders and from each other.

Outside resistance to the CMLN. Outside resistance came quickly from former US/RDA supporters, the UNTM, and students. The first student strike, which called for the release of Modibo Keïta and his restoration to power, was repressed almost as soon as it began in April 1969. In August an alleged coup plot by soldiers loyal to Keïta was uncovered. All were arrested, tried, and convicted, and the accused leader died in prison a year later. Between 1969 and 1971 the UNTM struggled to regain legal status, but criticized the CMLN continuously. In March 1971 a second student strike was put down by the minister for state security, Lieutenant Tiékoro Bagayoko of the CMLN, who was one of the original fourteen. Twice during 1977 the students demonstrated, and twice they were repressed by Bagayoko.

Rivalries within the CMLN. Although it was anticipated that Yoro Diakité would almost immediately become Mali's head of state, he merely presided instead over several cabinet reorganizations arranged by Moussa Traoré. In March 1971 he was accused of plotting, along with Malik Diallo, one of the other captains, to overthrow the CMLN. Convicted, they were sentenced to life at hard labor. Diakité died in prison three years later. Traoré thenceforth headed the cabinet as well a the CMLN.

A second round of accusations against insiders came in 1978, when three ministers were accused of a coup plot. Among them was Tiékoro Bagayoko, still minister of state security. More than thirty people were convicted, and Bagayoko was sentenced to death. He died in prison.

The Second Malian Republic

During the mid-1970s Traoré was also taking political measures to consolidate his legitimacy. In 1974, by then a colonel, he considerably strengthened his powers by enacting a new constitution allowing the CMLN to continue governing for five more years. In 1975 he announced a new political party organized somewhat along Soviet communist party lines, the Democratic Union of the Malian People (UDPM), with himself as secretary general. In 1979 and again in 1985 he was the sole candidate for president. He then eliminated the constitutional provision limiting the president to two terms.

Concentration of Power

As head of state, government, and party, General Traoré was the nexus of communication between the party, nominally responsible for setting policy, and the government, nominally responsible for carrying it out. In practice, all issues of any consequence rose through party and government to the level of politburo and ministerial cabinet, presided over in each instance by Moussa Traoré. He was thus the decision maker of last resort for the formal apparatus. Actual decision processes—points argued, won or lost; compromises reached; careers strengthened or damaged; institutional advantages secured or thwarted—were deliberately kept obscure. Officials remained reticent about important matters, especially with foreigners. Serious issues were debated by only a handful of senior party and government officials. Although Traoré was said to solicit opinions from trusted aides, apparently he made most or all of the important decisions. Nevertheless, creating formal institutions yielded an important political benefit unrelated to decision making or administrative efficiency: it preempted other possible bases of opposition, coopting some dissidents and isolating others.

Evolution of Economic Policy

When the first republic was overthrown, the private sector rallied to support the new government, expecting the economy to be liberalized. Having no training in economics and lacking any clear ideology, however, Traoré and his peers made no move in the early years to change Keïta's existing economic policies. The number of firms wholly-owned or majority-owned by the state continued to grow. The burgeoning civil service continued to hire all secondary and training school graduates. The Chinese, Soviet, and other Eastern bloc aid missions remained large.

Efforts during the late 1960s to decrease the balance of payments and budget deficits, primarily to please the French, who were underwriting monetary reform, did produce marginal improvements in economic performance. However, these were overwhelmed by the massive drought of the early 1970s, which not only brought famine, but also wrecked what Keïta had left of the groundnut export business. (Soybeans produced in the Americas replaced groundnuts as the world's main source of cooking oil.) The first OPEC petroleum price shock and attendant global market gyrations added to the disarray.

Good weather and a return to state intervention as usual during the late 1970s failed to produce the expected recovery. It was at about this point that Traoré and his advisers began to question existing economic policy. The second round of oil shocks (1978-1979), the global recession (1979-1982), and another drought (1982-1984) brought new opportunities to blame the situation on outside factors, but by that time Traoré and his economic team members knew something was wrong with internal policies. By the time he decided to reverse the direction of economic policy, he had consolidated his power by instituting a constitutional regime with himself as president. He then began carefully backing away from state centered economics. The late 1970s saw the first, tentative steps to rethink and redirect the economy. A formal reform program was worked out with Mali's donors in 1982, but it was not until 1987 that the government accepted a strong foreign voice in economic policies.

One of the first economic policy reforms was the Traoré government's decision in 1979 (1) to cease offering civil service jobs to any and all graduates of the country's secondary schools and institutes of higher education, (2) to reduce the number of students admitted to those schools, and (3) to make students or their families bear much of the cost of their education. In November 1979 the students began a strike intended to last until the end of the school term in June 1980. The leader of the students' association, Abdoul Karim Camara, was arrested and died in March 1980 while in police custody. In July the teachers struck in support of their demand to receive unpaid back salaries. Traoré responded by cancelling the 1980-81 school year, and ultimately destroyed the student organization. He then sought to protect himself by "reinvigorating" the UDPM Congress, ousting party officials closely identified with his tough policies. His government exerted control virtually unchallenged for another decade, but its future opponents drew profound lessons from the defeat of the student movement.

Methods of Political Control

The remarkable political stability of the 1980s was achieved through a combination of control measures, including repression. Traoré's political method included frequent visits to various parts of the country, where he mingled with the people, listened, and rendered appropriate courtesies to local notables. He also tried to control political activity by coopting possible dissident leaders into the government and party. He often reshuffled his cabinet (21 times in as many years) and party executive bureau to keep opposition from solidifying and to scapegoat officials identified in the public mind with inefficiency, corruption, or painful economic decisions. The shuffles usually had little practical consequence, since ministers and party leaders exercised only as much power as the president gave them.

Other usual bases of political power, including the labor union movement, the government bureaucracy, and the military, played decidedly secondary roles. The UNTM was forced (most unwillingly) to become the labor adjunct of the UDPM, as it had been under Modibo Keïta's US/RDA. For a number of years, lacking any strong agenda of its own, the Malian civil service looked after its formal responsibilities and career status. Despite two brief skirmishes with neighboring Burkina Faso over disputed border territory, the military became largely a domestic police organization.

Public responses to abuses of power. President Traoré's unfettered exercise of power gradually led to abuses, fueling a slow build-up of public resentment. The activities of his subordinates in the security apparatus, who occasionally resorted to arbitrary arrest and torture, led some of Mali's leading attorneys and other professionals to create associations to safeguard human rights. These associations later broadened their objectives to include establishment of multiparty democracy, an aim that Traoré adamantly opposed.

Corruption at high levels. According to foreign observers of Mali and of Traoré, he appeared most interested in power and only secondarily in wealth. Among Malians, however, there was widespread resentment against members of Traoré's family and tribal clan who steered economic opportunities toward themselves and their favorites.[8] The president's wife, Mariam, was reputed to wield important influence in the Malian business community. She was said, for example, to control the import and availability of certain key commodities; on one occasion, she reportedly stopped all sugar imports to enhance her control of the domestic sugar market. Madame Traoré's brother headed the Malian customs service. Her agents were also said to exert a strong influence over the aircraft charter business. She and senior government officials were said to own a number of important trading and industrial companies through private individuals acting as fronts. It was reported that bananas from the Traoré plantation and milk from the Traoré dairy farm were the only products of their kind to be found on the market at Bamako.

PART II. THE ROLE OF THE DONORS

Mali has been heavily dependent upon foreign economic assistance since independence. Under President Keïta, the primary donors were the Soviet Union, China, and other Eastern bloc governments, but Mali also received aid from Western countries and multilateral institutions. Mali's return to the franc zone in 1967 placed France in the forefront of the bilateral donor community, where it has remained. The 1968 coup d'etat brought little change in the pattern of foreign aid, but during the drought of 1972-1975, foreign food aid, including technical help in food distribution, became an indispensable element in Mali's economic survival. Nevertheless, the Malian government retained overall control over economic policies and maintained its pervasive presence in the economy through administrative regulations and state-owned enterprises. By the end of the 1970s, the donors were increasingly reluctant to finance the government's chronic deficits.

For several years after the great drought the Traoré government experimented with perfunctory revisions to its economic policies, but eventually (beginning in 1982) turned to the donors for help in developing a coordinated reform plan. With donor advice and funding, the government then promulgated and executed a structural adjustment program.

A Chronology of Donor Involvement in Reform

The economic reform measures were designed largely by foreign donors, since Mali lacked the managerial and financial skills to carry through reform alone. Absent a coherent program of its own, the Traoré government accepted and implemented major reform measures reluctantly, fearing economic and political consequences at each step of the way. Although Traoré and his subordinates in the UDPM and the economics ministries claimed, with some justification, that economic reform was a Malian initiative, his government often had to bow to IMF and World Bank pressures in order to receive essential foreign assistance. Nevertheless, the Malians made a respectable beginning.

1982. The launching vehicle for economic reform was a stabilization program supported by three successive IMF standby arrangements, whose objectives included reduction of budget deficits, public enterprise operating losses, and public sector arrears; market liberalization; and improvements to price incentives. The three year implementation period unfortunately coincided with a severe drought, which required substantial emergency food aid. Nevertheless, in June 1984 Mali met conditions that allowed it to join the West African Monetary Union and to adopt the CFA franc in place of its own currency. The World Bank began a series of multi-year programs to support improvements in transportation, education, and cotton agriculture.

1985. The government undertook to reduce the size of the civil service, easing the transition by providing, through USAID, a voluntary early departure program that included short term severance pay, pension guarantees, and a bank loan guarantee plan for participants who opted to start private businesses.

1986. Foreign exchange receipts declined drastically due to a sharp fall in the world price of cotton. Structural adjustment programs suffered as a result, although the macroeconomic reform effort continued: the national assembly passed legislation decontrolling prices, except for a limited class of goods and services whose number steadily declined with the passage of time.

1987. Structural adjustment came to a halt when Mali failed to meet IMF conditionalities on credit ceilings, delaying the completion of the third standby arrangement. The Malian government also proved reluctant to accept World Bank demands that the state-owned enterprises be restructured. Perhaps the most traumatic event was the collapse of the country's largest bank, the state-owned Banque de Développement du Mali. When the donors demanded that it be closed, the government insisted upon attempting to save it. (See the section on banking reform, below.) The donor community concluded that Mali had weakened its commitment to structural adjustment and countered by slowing the flow of support funds to a trickle, demonstrating that they agreed on the broad aims and direction of economic reform and were willing apply pressure when they believed it was needed.[9]

1988. Although negotiations on the fate of the BDM continued until 1989, by 1988 the Malian government had returned to the negotiating table and agreed to the World

Bank's public enterprise program. With the IMF, it successfully negotiated a new standby arrangement for SDR 14 million (about $18 million) and a three-year structural adjustment facility (SAF) that provided Mali SDR 35.56 million (about $45 million). Following President Mitterrand's recommendation that the Group of Seven provide debt relief to the poorest developing countries, Mali obtained generous terms at its Paris Club debt meetings. (Mali's official debt was by then nearing $2 billion.) With the World Bank help, the government began to effect major public sector reforms, including liquidation or privatization of public enterprises, using a redeployment fund to ease the transition for employees who lost their jobs as a result. (See the section on state-owned enterprise reform in Part III, below.)

1989. From 1988 onward, in fact, the Malians yielded to the donors, who seized a strong role in designing and overseeing both structural adjustment and economic policy reform. During 1989, macroeconomic and state-owned enterprise sector reform, including negotiations on the BDM, continued. The country's foreign trade regulations were rewritten, ending quantitative import restrictions and introducing automatic processing of import and export trade license applications. The World Bank introduced a major structural adjustment program to improve and expand the country's primary education system.

1990. Major progress was recorded in the World Bank-supported restructuring of state-owned enterprises: fifteen firms were liquidated, four were privatized, and performance contracts were signed for three scheduled to remain under government ownership. A major overhaul of the postal service took place under the same program. A separate World Bank project continued in the Office du Niger, jointly supported by several bilateral donors. The number of categories of price-controlled products was reduced from ten to four, with complete elimination of price controls targeted for the beginning of 1992. In agricultural reform, producer prices for cotton were linked to the world market price. Both the IMF and the World Bank supported efforts to improve efficiency of tax collections and budgetary management.

1991. In recent years the IMF program in Mali has focused on monetary policy (administered in coordination with the BCEAO) and on improvements in tax policy, revenue collection, and financial administration (e.g., computerization of accounts). As of June 1991 the third tranche of the SAF, amounting to SDR 10.16 million (about $14.5 million), remained undisbursed; disruptions caused by the revolution led to the disbursement delay.

Early in 1991 the Malian government applied for a three-year enhanced structural adjustment facility (ESAF), to cover the period 1991-1993, in the amount of SDR 60.96 million (about $81.5 million). The IMF resident representative, housed in the Malian finance ministry, provided guidance in preparing the new request.

During 1991 The World Bank's structural adjustment program continued to focus on reduction of economic control and regulation, reorganization of the national budget, reform of state-owned enterprises, reform of the civil service to increase efficiency through retraining and reduce total personnel through early retirement; reform of the labor code, and improvement of data collection (including a national population census) and statistical analysis for long term planning. The Bank continued to fund investment in agriculture and improvements to basic education. Bank officials estimate the program will involve loans totaling $70 million to $80 million a year over the coming three years. As of 1991, Mali currently owed the World Bank about $500 million.

Other Donor Activities

A number of Mali's reform programs, such as those to liberalize grain markets, restructure the government's rural development operations, and simplify the regulatory environment for private economic activity, have been carried out as joint projects involving several donor agencies—multilateral institutions, the European community, bilateral donors, and private organizations.

Bilateral Donors

France is Mali's principal bilateral donor, through direct loans and grants (including debt forgiveness) and through the UMOA system. Cotton sector support is a major French aid activity. Other bilateral donors involved in economic reform include Belgium, Canada, Germany, Japan, Norway, and the United States.

The United States. The USAID Mission's Economic Policy Reform Program (EPRP), dating from 1985, eventually totaled $25.7 million. EPRP and its successor, Policy Reform for Economic Development (PRED), have focused on two objectives: improving the environment for private sector development and budget restructuring, i.e., reducing the cost of the public service through voluntary early departure and other measures to reduce the number of civil servants.[10] Overall, AID's fiscal year 1991 program included $34.2 million in general support, $5 million in PL-480 funds, and a number of appropriations for ongoing long term projects in education and agriculture. The Peace Corps has 150 volunteers in Mali, with a budget of $4 million a year.

Aid Not Linked to Reform

Many aid projects exist unrelated to structural adjustment or economic policy reform, such as those devoted to humanitarian aid or technical assistance for general social and economic development. Such projects are underwritten by multilateral institutions (especially the World Bank and UN agencies), regional banks such as the ADB, BADEA, bilateral donors, and a long list of private voluntary organizations. Since the change of government in 1991, a new category of aid has appeared: technical assistance and financing for political development, for example help in planning and conducting Mali's elections leading to the third republic.

Eastern bloc countries have been active in Mali since independence. At present a Chinese firm is building a new, Saudi-financed bridge across the Niger river at Bamako to facilitate vehicular traffic between the capital and its rapidly expanding suburbs on the right bank as well as the southeastern part of Mali. The Soviet Union was once the major supplier of military material to Mali, but this assistance has dwindled in recent few years. Fewer than two dozen technicians remain in Mali.

PART III. MALI'S MAJOR ECONOMIC REFORMS

The main elements of Mali's economic reform effort have comprised the following:

(1) decontrol of the economic environment, including business activity and most particularly prices, beginning with farm products and imports;
(2) banking sector reform;
(3) budget balancing measures, i.e.,
  (a) improvements in revenue collection, and
  (b) reductions in spending, the latter involving an ambitious program to reduce the number of state-owned enterprises.

The categorical framework chosen here is somewhat arbitrary. Since the government intervened massively in many areas of the economy, Mali's economic policy needed massive reform. Agriculture, the most important sector, required price reforms and the ending of government monopolies over farm products, but also restructuring of the government's rural development schemes (opérations de développement rural, or ODRs) as well as the Office du Niger. Cereals market liberalization was an essential concomitant of these measures. Reform of the banking sector involved decontrolling interest rates, but it also meant restructuring a number of state-owned financial institutions, of which the BDM is the largest. In that sense, the BDM story is part of the effort to restructure the state-owned firms.

Decontrol of the Economic Environment

The proclivity to control the economy combined elements of *dirigisme* with Marxist/Leninist institutional machinery. One of Modibo Keïta's ministers once justified the government's socialist course with an apothegm: you can't build capitalism if you haven't any capital. The state was to be the engine of development, intervening directly to provide productive initiative, goods and services, employment, and purchasing power, either through government programs or through ownership of the means of production.

State intervention in production was matched by intervention in distribution and consumption through regulation intended to restrain economic behavior that aimed at satisfying individual rather than communal needs or preferences. The government and its agents were hostile toward private economic activity of all kinds. There were few private traders and even fewer manufacturers and producers of services in Mali, even in the informal sector, but such as there were received constant harassment at the hands of the government.

Since the vast majority of Malians were and are subsistence farmers, essentially private producers consuming their own output and occasionally selling locally for marginal gain, the government intervened in pricing of inputs and crops, forbade private transport of grain between regions within the country, required sale of grain crops to OPAM, and monopolized the import and distribution of consumer goods through SOMIEX. The disruptive effects of these policies were masked for a time by recurring drought and resulting near-famine conditions in the countryside. Eventually, however, the shortcomings of state intervention became too obvious to be ignored.

Reform efforts to promote greater activity in the private sector have largely taken the form of measures to simplify regulation. An undated (probably 1989) FIAS study of the investment climate complained of documentary requirements that caused extensive administrative delays in establishing new businesses.[11] Since then, a *guichet unique* (single window) has been established to streamline processing. The FIAS study also called for reductions in the business tax burden, improvements in financing procedures, and reform of the investment code.A number of these measures are under study or have been adopted. During 1991 the government revised the investment code, and it expects to promulgate shortly new codes governing commerce as well as mining ventures.

Institutions

For the first 20 years of Mali's existence, governments proliferated organizations charged with overlapping economic responsibilities. The national government and its territorial subdivisions still duplicate some economic functions. Governments of the eight regions (roughly corresponding to provinces) can obtain funds from the national government, or (in principle) retain a portion of tax funds collected for the national treasury to support regional economic projects. Certain municipalities are (again in principle) authorized to do the same. The ODRs, which can have geographic (Opération Mali Sud) or commodity (Opération Coton) focus, constitute a completely different set of institutions; in either case, the opération's administrative boundaries need not coincide with those of territorial subdivisions. In addition, there are special-purpose agencies such as the Office du Niger, an entity whose closest analogues are the agricultural schemes created by the British in Sudan: a combination of engineering project (dam and canals), irrigated plantation (rice, cotton), and social experiment (relocation of farmers to agricultural cooperatives).

Neither the government nor the donors have taken a doctrinaire approach to reforming quasi-governmental schemes such as the ODRs or the Office du Niger. So far, the donors appear to be focusing on improving efficiency in these schemes rather than liquidating them, although some are likely to be wound up eventually. Under pressure from the donors, the Traoré government gradually abandoned its insistence on preserving state ownership of economically productive organizations, including state enterprises. However, it temporized in approaching that phase of structural adjustment (1986-1987), taking pains to assess the social effects, with a particular eye toward avoiding protests against reductions in availability of goods or services, as well as political reactions against employee layoffs at state firms retrenching or going out of business.

Eliminating Price Controls

Unable to change the prevailing attitude at the outset, the donors sought instead to begin by dismantling price controls, thereby making markets more efficient, but also taking the first steps toward whittling down the government's role in economic life. At the outset of the reform effort, most imports, most foodstuffs, and most industrial products of state-owned enterprises, plus a number of commercial services, were subject to price controls. These categories comprised most of the goods and many of the services available in the Malian economy. Price controls were attacked from two directions: through direct government decision and through restructuring of the state-owned enterprises. By mid-1989 only ten categories of goods and services were still covered. These included paddy rice, cotton, pharmaceuticals, veterinary supplies, water, electricity, hydrocarbon fuels, and transport (international and domestic goods, and urban passengers).[12] During 1990 the number of categories was reduced to four, and by 1991 only hydrocarbon fuels were still price controlled; fuel prices were scheduled to be decontrolled by January 1, 1992.

Cereals Market Liberalization

Mali's effort to restructure its cereals markets (Programme de restructuration du marché céralier, or PRMC) was designed to decontrol producer and consumer prices, restructure OPAM, reinvigorate rural production cooperatives, and stimulate private participation in cereals marketing.[13]

Since Mali's grain is largely produced by subsistence farmers, only about 15 percent enters the market. From OPAM's founding shortly after independence until the launching of PRMC (except for a brief period in 1969), the agency had an official monopoly on grain trading, but never managed to handle more than 20 to 40 percent of the cereals commercialized. Thus, it controlled only 3 to 6 percent of total production. During the 1971-1973 drought OPAM became (and remains) Mali's main distribution channel for foreign food aid. After the drought the government raised producer prices to encourage production, but held consumer prices low for political reasons. OPAM absorbed the subsidies, pushing its budget deep into deficit, which various donor agencies financed. In 1978 a study for the FAO and the donors recommended an overhaul of OPAM and the entire cereals market. PRMC was the result.

The program envisioned increases in both producer and consumer prices, abolition of OPAM's monopoly, and gradual transformation of OPAM into the manager of Mali's grain buffer stock to provide food security in time of drought. During its first five-year phase (1981-1986), PRMC's nine participating donor agencies provided support in the form of food aid. This was fortuitous, as the country experienced another severe drought between 1982 and 1984.

From the beginning it was realized that PRMC involved political risks, as urban government employees faced losing a source of subsidized grain. The program permitted OPAM temporarily to continue its market interventions and to sell on credit to large public institutions (e.g., the army and civil service), thus cushioning the financial strain on government employees, whose salaries were often in arrears. As a market stabilizer, OPAM experienced mixed results under the PRMC. When the rains returned and domestic grain production increased, OPAM was unable to adjust its prices quickly and continued to pay high producer prices when ample supplies were available, bankrupting its stabilization fund. Producer prices then fell sharply. Food aid donors shifted to cash contributions to avoid aggravating the situation.

Private commerce in cereals increased rapidly under PRMC, but traders soon found credit difficult to obtain. When supplies increased, they lacked money to buy, depressing prices further. Credit was allocated on the basis of political connections, as were OPAM sales contracts during the period (1985-1986) when it was paying a premium above the market price. Between 1986 and 1988 the government resisted donor pressure to clean up OPAM's bidding and contract awards, but eventually did open the contracting process for security stock purchases, reducing the importance of political influence. The government's political problems and its corruption jeopardized an economic reform measure that otherwise was working reasonably well.

Staatz, Dioné, and Dembélé conclude that rainfall is the key determinant of cereal prices, although political decisions also play a role. Had the government banned rice imports when domestic production recovered, prices would have been easier to support, but cheap rice was important to civil servants during a period when they were not being paid on time. They refer to a food price dilemma, the trade-off between higher producer prices to yield higher production, versus the heavy cost on low-income consumers, some of whom may have important political influence. Eventually, the result of the cereals market liberalization process was higher production, which meant higher returns for producers but lower consumer costs. Because the reform process was gradual, Malians came to see its benefits and took an interest in promoting it. A more rapid implementation might have prevented the emergence of a constituency.

The Banking Sector

Perhaps the most important financial reform in Mali's history was the one described earlier, the decision of Modibo Keïta's government to abandon its experiment in monetary independence and negotiate the country's return to the franc zone in 1967.[14] From a banking system almost completely nationalized during the 1960s, Mali moved far toward privatization by the late 1980s. The transformation has not been without painful adjustments. In the category of banking sector reforms, the restructuring of the Banque de Développement du Mali (BDM) and that of the national postal savings system have been the most important. In particular, the BDM restructuring involved serious political risks.

History. At independence Mali possessed no wholly domestic financial institutions other than the postal savings system. Commercial banking was in the hands of foreign banks, branches of Crédit Lyonnais and the Banque Intérnationale de l'Afrique Occidentale (BIAO). At the time, the Paris-based BIAO was owned by a consortium of investors including Citibank. The Keïta government soon nationalized these banks, permitting the foreign parents to remain as minority shareholders. Credit Lyonnais was renamed Banque Malienne du Crédit et de Dépots (BMCD).

The 1962 creation of the Banque de la République du Mali (BRM) to be the country's central bank also brought most banking transactions under one roof, inasmuch as the BRM provided financing to state enterprises, and these rapidly became the important (virtually the only) banking clients in the country. BIAO and BMCD took deposits from foreign embassies and made loans to the few private businesses remaining in Mali, essentially the long-established French trading companies (most soon to be squeezed out) and a few Malian merchants. A new farm credit agency, the Société du Crédit Agricole et de l'Equipement Rural (SCAER) appeared in 1964, replacing one created by the colonial government.

When Mali rejoined the franc zone in 1967, the BRM remained the central bank. The following year saw the establishment of the BDM, which supplanted the central bank as the country's largest lender. Thereafter, no new bank charters were issued for more than a decade. In 1981 another development bank appeared, the Banque Nationale de Développement Agricole (BNDA), and the following year two commercial banks opened their doors: the Bank of Africa-Mali (BOAM), entirely private and 87 percent owned by Malian investors, and the Banque Arabe Libyo-Malienne pour le Commerce Extérieur et de Développement (Balima), based upon Islamic financial practices and owned by a Libyan bank and the Malian government. In 1988 the government of Mali liquidated SCAER as part of its reform of the state-owned enterprises. The Malian banking system now comprises the financial institutions listed in Table 1.

Restructuring. Of the eight institutions listed other than the BCEAO, only four (the development banks and the postal savings scheme) are wholly Malian government-owned. Restructuring has begun even here. Since SCAER was closed, there are only three, of which the BDM and postal savings have received the most attention.

Reform of the BDM

The BDM was Mali's largest lender for nearly twenty years, providing up to 80 percent of outstanding loans in the country. It was brought down by bad credits extended to state enterprises, virtually all of which lost money consistently but continued to borrow for investments and expenditures. A secondary source of losses was loans to private individuals, many of them government officials, for investments in land, construction, and agriculture, as well as personal property. The BDM collapsed in 1987, having non-performing assets of some CFA francs 62.4 billion (about $210 million).

TABLE 1

MALIAN FINANCIAL INSTITUTIONS

Central Bank

Banque Centrale des États de l'Ouest Africaine (BCEAO)

Commercial Banks

Bank of Africa—Mali (BOAM); privately owned
Banque Arabe Libyo-Malienne pour le Commerce Extérieur et le Développement (BALIMA); owned by Libyan bank and Malian government
Banque Malienne de Crédit Malienne de Crédit et de Dépots (BMCD); owned by Malian government and Crédit Lyonnais
BIAO—Mali; owned by private investors (foreign parent company liquidated)

Development Banks

Banque de Développement du Mali (BDM); reorganized under Moroccan shareholder/technical partner; Malian government now a minority shareholder
Banque Nationale de Développement Agricole (BNDA)
Société de Crédit Agricole et d'Equipement Rural (SCAER); liquidated

Savings Institutions

Comptes Chèques Postaux/Caisse Nationale des Epargnes (CCP/CNE); separated from Post Office, paying service fee for Post Office facilities

The major donors, led by the World Bank and France and supported by the BCEAO, helped the government to implement new policies at the BDM during 1988, but they also strongly advised the Malian government to liquidate the bank. Negotiations continued into 1989. The government of Mali resisted closing the bank, arguing that it was too large to be allowed to fail: (1) a vast number of small depositors would be wiped out, (2) many important institutions, private as well as state-owned, would be injured, and (3) the repercussions on other banks would cause the collapse of Mali's entire financial system. The damage, they argued, would set back the economy by many years, greatly outweighing the cost of keeping the BDM alive through an infusion of capital. Although these arguments had merit, it was also obvious that the BDM had been victimized by bad management and outright venality. The donors continued to press for liquidation.

In the spring of 1989 President Traoré visited Paris to meet with French President Mitterrand. According to reports circulated in Bamako, Traoré reminded Mitterrand of the close association between the two countries and of Mali's strategic position in the interior of West Africa. Should France continue to insist upon the dissolution of the BDM, he argued, Mali would be in no position to resist, but the economic, social, and political effects would be devastating. In that case, Mali would consider the special relationship between France and Mali to be irreparably damaged.

Within days, according to this story, the French government approached other donors with a plan to restructure the BDM, with the French Caisse Centrale de Coopération Economique (CCCE) providing a significant minority share of the funds needed to cover the bank's CFA francs 62.4 billion in non-performing assets. The outcome of negotiations between the donors and the government of Mali at Paris in May 1989 was a restructuring of the BDM along lines shown in Table 2.

The BDM restructuring taught the Traoré government that political intervention in the economic reform process could be effective where its vital interests, self-defined, were involved. In this case the Malians were able to prevail against intense pressure from their most important donor, France, by making the political cost of a specific reform measure unacceptably large. This was a very high risk game, but the Malians carried the day. Their victory was a hollow one, since the government lost its majority interest, the restructured bank had fewer assets and fewer employees, and it was dependent upon its own deposits for lending purposes.

Reform of the Postal Savings System

A holdover from the colonial administration, the Comptes Chèques Postaux/Caisse Nationale des Epargnes (CCP/CNE) was provided to allow ordinary citizens, small farmers, and merchants a place to safeguard such cash as came into their possession as a result of transactions in the money economy. On July 1, 1990, it became a mixed-capital institution separate from the postal service and managed by a technical partner under contract. It was authorized to accept, transfer, and pay out deposits, but could not extend credit. The World Bank also examined options for investing its liabilities in assets other than the UMOA money market.

TABLE 2

BANQUE DE DEVELOPPEMENT DU MALI RESTRUCTURING

Steps:

- The BDM to be transformed into a joint share company (*société anonyme*);
- BDM to be recapitalized at CFA francs 3 billion (about $10 million), with new shareholders:

Institution:	*Percentage*:
BNDA (representing the government of Mali)	20.0
BCEAO	20.0
Banque Ouest Africaine de Développement	20.0
Malian private investors	23.3
Banque Marocaine du Commerce Extérieur	16.7
Total	100.0

- Banque Marocaine du Commerce Extérieur to operate of the bank under a technical services contract;
- BDM's non-performing assets to be removed from the new bank's balance sheet and covered by a capital infusion as follows:

Institution	*CFAF billions*
Old BDM capital and reserves	11.0
World Bank counterpart funds	14.0
French CCCE	8.0
BCEAO new funds	9.5
BCEAO infusion of February 1988	14.4
Cancellation of BDM debt to Malian government	5.5
Total	62.4

- Malian government deposits in the new bank (CFA francs 13 billion) to be blocked;
- Performing portfolio amounting to CFA francs 18 billion to be retained, supported by recovery of loan write-offs, revaluation of fixed assets, and writing off of additional Malian government deposits;
- Costs to be cut through drastic measures, including branch closures and reduction of staff by two-thirds;
- BDM to be granted the same legal rights as the Malian Treasury in recovering loans.

The system's political problem was that the Malian government had systematically looted postal savings accounts for thirty years, tapping into the deposit pool to cover budgetary shortfalls (mainly unpaid government salaries). With help from the World Bank, the government developed a plan to reliquify the CCP/CNE by paying outstanding arrears to the Office des Postes et Télécommunications (OPT) or its anticipated successor, the Office National des Postes (ONP). The post office deposited these funds into the CCP/CNE and then wrote them off. Since this exercise covered only a small part of the total due small depositors, much of the difference was expected to be made up through donor support, including World Bank counterpart funds and a French contribution in 1990. The World Bank, which estimated the amount needed at CFA francs 5 billion (about $20 million), made CCP/CNE rescue by the Malian government a condition for release of the third tranche of its structural adjustment loan.

Budget Balancing Measures

Whereas improving Mali's economic environment is the goal of economic policy reform, bringing Mali's finances into balance is the key objective of structural adjustment. Unfortunately, Mali's balance of payments and its national budget appear likely to be in deficit for the foreseeable future; perhaps neither can achieve equilibrium in the long run. The alternative to permanent status as an international charity case may have to be some new political and economic arrangement, such as incorporation into a regional market and confederation, if not absorption into a larger state.

In the meantime, Mali and the donors seek to eliminate every policy error that aggravates the economic situation, leaving only Mali's fundamental disabilities in contention. Measures to balance the national budget naturally include major steps to increase revenues (basically by improving the efficiency of tax collection) and to decrease expenses (basically by breaking free of money-losing state enterprises).

There are also several other measures, such as ministerial information management improvements to forestall future payments arrears, better collection and more rapid analysis of financial and economic statistics, and improved oversight of public investment projects, intended to help redress the budget. Perhaps the most important of the secondary measures is reform of the civil service, a process that anticipates further reductions in salaries as well as total personnel (through hiring freezes and early departure programs, support of the latter activity now shifting from USAID to the World Bank), care to hire technically qualified specialists, and a program of reeducation to transform the *functionnaire* mentality from one of control to one of service. A longer term requirement, only beginning to be addressed, will be that Mali's educational system prepare future civil servants, professionals, and business managers to respond more effectively to the country's economic realities and its need for skills.

Improved Revenue Collection

Efforts to increase revenues have concentrated upon improving the efficiency of tax collections to reach additional segments of society, such as informal sector producers of goods and services in the cities and towns, rather than increases in rates or imposition of new taxes. The introduction of a value added tax (VAT) in 1991 was intended to facilitate record keeping and collections in the modern money economy (and to eliminate the cascading tax effects of the earlier system). As a result of the economic dislocations associated with the revolution, certain applications of the VAT were postponed until mid-1992.

Reform of the State-Owned Enterprises

Although a number of state economic institutions originated in the colonial period (e.g., the Office du Niger, commodity marketing boards, the Malian share of the Dakar-Niger Railroad), state enterprises proliferated under Modibo Keïta. His government created new firms to provide goods and services hitherto imported from France and marketed through French trading companies; import substitution and national self sufficiency were the goals. Employment and transformation of the labor force into a militant and disciplined industrial resource were also major objectives of Keïta's program. People's products and people's jobs were the intended results.

Many of the innovations were politically motivated: Air Mali, the Librairie Populaire, the Pharmacie Populaire, and especially the pervasive (in the towns, at least) SOMIEX—the Société Malienne Import-Export, the state wholesaler/retailer that held a monopoly on international trade in a broad range of goods, from industrial machinery to foodstuffs to household items. Many of the new firms were the outgrowth of projects carried out with the help of foreign donors: cigarettes, matches, and cotton cloth (People's Republic of China); cement (Soviet Union); canned fruits and vegetables (Yugoslavia); and peanut oil (West Germany). Even Air Mali benefitted from an independence gift of two Dakota aircraft from Great Britain, as well as concessional financing for Soviet Ilyushins and Antonovs. Similarly, West Germany's independence gift was a passenger motor vessel that became a mainstay of the Malian river transport company.

The creation of state enterprises continued after Keïta's overthrow. Eventually, there were nearly sixty such firms covering a broad range of activities: farm inputs, crop processing, raw materials, manufacturing, transportation, construction, wholesale and retail trade, and other services. In general (there were exceptions), state facilities proved incapable of employing equipment and personnel at anything approaching efficient capacity, producing quality goods at prices acceptable to consumers, or earning a profit. The government's inability to make its enterprises produce effectively eventually drove the Traoré government to reconsider the whole range of its economic policies.

Reform of the public sector enterprises is the largest of the structural adjustment efforts. For its part, the World Bank professes to ignore whether a given firm is owned by the government, so long as the government's role is that of simple shareholder, i.e., so long as the firm's losses are not covered by subventions from the national budget. Any enterprise over which the state retains ownership, therefore, must show a consistent profit. When the Malian government pointed out that certain enterprises could be sold off for better prices if rehabilitated prior to being put on the market, the World Bank created a further guideline: if a given enterprise needed additional infusions of funding from the national budget in order to become profitable and therefore more marketable, it should be wound up immediately. Thus, the cardinal rule was that budgetary subventions to state enterprises should end without delay. The government was slow to apply the rule, but from 1988 onward parastatal reform gained momentum.

The mechanism of state enterprise reform took the form of *triage*, in which each of the firms was subjected to careful analysis (conducted under World Bank auspices) to determine its fitness for (1) retention as a state entity, (2) sale to private investors, or (3) liquidation. Of fifty-seven firms identified in the public sector, thirty-five were selected for the first stage of reform. The results of that first stage are indicated in Table 3. Stage two began in 1990 with World Bank-assisted studies of the remaining twenty-two firms, of which one was completely privatized and in two others the state sold all but a minority interest; at year-end 1990 the tentative program was to privatize seven, liquidate five, and restructure seven of the remainder.

Political Issues

The most difficult political issue facing the Traoré government in reforming the state enterprises was that of closing SOMIEX. The import/export company symbolized the Keïta regime's commitment to centralizing control over the entire economy, even over trade, Mali's traditional bastion of private initiative. The SOMIEX offices and shops were everywhere, making it not only highly visible, but also the largest single employer in Mali. The government had two reasons for choosing this enterprise for early liquidation. First, its losses were substantial, and second, its closure was thought to send a message to all observers, domestic and foreign, that the government was not only serious about economic policy reform, but willing to face the political consequences of laying off a large number of employees.

The SOMIEX case demonstrated the Traoré government's strategy in carrying out economic policy reform. The government was slow to make decisions about specific programs. In the case of public enterprise reform, during the mid-1980s it resisted World Bank and other pressures to liquidate firms quickly, and it insisted on creating programs to cushion the injury to affected employees. Ultimately, the government had little choice, and it acted. In the event, President Traoré and his government were ultimately overthrown, although it would be hard to argue that the closing of SOMIEX, or any other single aspect of economic reform, finally tipped the political balance.

TABLE 3

DISPOSITION OF MALIAN STATE ENTERPRISES *

Enterprises to Remain State Entities

1. Energie du Mali (electricity distribution)
2. Regie du Chemin de Fer du Mali (railroad)
3. Office National des Postes (mail delivery)
4. Compagnie Malienne de Navigation (river transport)
5. Office pour l'Exploitation des Resources Hydrauliques du Haut Niger (electricity generation)
6. Société Nationale de Tabacs et Allumettes (cigarettes, matches)[15]

Enterprises to be Privatized

1. SEPOM (edible oils; sold)
2. SOCAM (cannery; sold)
3. Grand Hotel (sold)
4. EDIM (printing)
5. SEMA (construction)
6. COMATEX (textiles)
7. ITEMA (textiles; sold)
8. EMAMA (pumps)
9. UCEMA (ceramics)
10. SMECMA (agricultural equipment; foreign bidder)
11. TAMALI (tanning; foreign bidder)
12. SEPAMA (edible oils; closed, awaiting bidder)
13. SOCIMA (cement; closed, awaiting bidder)
14. Pharmacie Populaire du Mali (received no bids; further restructuring needed)

Enterprises Already Liquidated

1. Air Mali (passenger airline)
2. Société Hotelière du Mali (hotels)
3. SAT (transport)
4. SCAER (agricultural equipment finance)
5. SEBRIMA (bricks)
6. SOCOMA (cannery)
7. SOCORAM (radios)
8. SOMBEPEC (livestock)
9. SONEA (slaughterhouse)
10. SOMIEX (import-export)
11. Compagnie Malienne de Transport (transport)
12. EMAB (furniture)
13. OCINAM (cinema)
14. Librairie Populaire du Mali (bookstores)
15. Société Nationale des Travaux Publics (construction)

*Status is as of end-November 1990.

PART IV. THE MALIAN REVOLUTION

The Opposition

The government of President Moussa Traoré was overthrown on March 26, 1991. A true revolution is in progress: the people's mentality has been transformed, and they are behaving in ways very unlike what they have been accustomed to all their lives. The revolution emerged from two modern and very recent social institutions, the free press and the pro-democracy movement. These forces captured the public imagination and galvanized the country's students, who became the shock troops for executing a carefully planned campaign of violence designed to discredit the Traoré regime and, eventually, to bring about its destruction. In the final days, the associations and the students, joined by the national labor confederation and masses of the young urban unemployed, provoked the government into actions that undermined its legitimacy and enabled senior military officers to step in and remove the president and his loyal supporters.

The Free Press

The opposition might have remained small and disorganized had it not been for the establishment of an independent press. In March 1989 Alpha Oumar Konaré (a former minister of youth, culture and sports, later the publisher of *Jamana*, a small monthly magazine covering Malian cultural and sporting events) established a biweekly newspaper, *Les Echos*, that dared to criticize the government and to state particulars about corruption. *Les Echos* was quickly joined by *Aurore*, another biweekly with similar aims, then by *La Roue* and other papers. Why the Traoré government allowed the free press to operate is unclear, but observers have suggested that the independent newspapers survived because

(a) legislation guaranteeing a free press had been on Mali's statute books during the colonial era and had never been repealed under either Modibo Keïta or Moussa Traoré;

(b) the president and his advisers believed opposition newspapers would constitute no major threat because they would soon prove to be business failures: most Malians are illiterate, the cost of 100 CFA francs (about $ 0.35) per copy would be too costly in the long run for most Malians, and the papers would never sell advertising space because Malian firms, especially state-owned enterprises, would fear to buy; and

(c) Mali's foreign donors brought pressure to bear on President Traoré not to shut them down.

The newspapers were an immediate success. Copies sold at a premium, and the pioneers soon began to appear weekly. The result was that Malians could read in the newspapers what they were observing for themselves about their country and its leaders.

The independent press circumvented the control of information imposed upon the government's daily newspaper and its radio and television monopolies, but more importantly, it enabled Malians to stop censoring their own discussions with each other, because they could talk openly about local events already in the public domain.

The Pro-Democracy Movement

Since this sudden freedom coincided with dramatic political and economic events in Eastern Europe as well as in other African countries, interest in political life and institutions increased very rapidly. In July 1990 more than a hundred of Mali's leading citizens, including the founder of Mali's human rights organization, attorney Demba Diallo, signed an open letter to President Traoré demanding a multiparty political system. The president, addressing a UDPM conference in August, replied that multiparty democracy was no part of Mali's tradition. Later, he relented slightly, announcing a national debate on multiparty democracy to take place on March 28, 1991—but only within a congress of his UDPM, still the only legal political party.

In mid-October, five unemployed graduates staged a peaceful march through downtown Bamako, protesting their lack of work; all were arrested, but soon released. There were further demonstrations, including a violent rampage through the Bamako central market when police cracked down on unlicensed street peddlers early in December. From very early in the pre-revolutionary movement, economic issues were commingled with demands for human rights and democratic institutions.

The increase in public awareness and public interest stimulated activity within long-dormant political parties, including the US/RDA and others on the left. Late in October 1990 these formed a prodemocracy association, the Comité national d'initiative démocratique (CNID), led by Mountaga Tall, another attorney. At about the same moment, human rights activists and other professionals created an Alliance démocratique malienne (ADEMA). The students also organized themselves, forming an Association des élèves et étudiants maliens (AEEM). On December 10 CNID and ADEMA carried out a march for democracy and pluralism, attracting more then 10,000 participants. The government's response was an attempt to censor the free newspapers and a night attack on ADEMA's headquarters. On December 30 the associations mustered 30,000 demonstrators in the streets of Bamako. The same day, a counterdemonstration organized by Traoré supporters drew only about a hundred adherents. (A second pro-Traoré effort, on January 5, drew about 3,000 marchers.) The prodemocracy associations began to attract increasing numbers of career civil servants as members or sympathizers, thus introducing a spirit of opposition into the bureaucracy itself.

The Labor Union Federation

Early in January the UNTM, still militantly leftist despite thirty years of subordination (not without occasional resistance) to successive ruling parties, took steps to regain its independence. It called a successful two-day general strike in support of a list of demands, the chief of which were a 50-percent increase in all salaries, an end to the wage freeze in effect since 1985, guarantees of job security, and multiparty democracy. The increasing militancy of UNTM resulted primarily from the austerity measures accompanying Mali's structural adjustment program.

The prodemocracy associations, buoyed by the union movement's new energy, redoubled their efforts. For his part, Traoré realigned his cabinet, appointing hard-liners to the ministries of interior and justice. The battle lines were drawn.

The Students

In the final event, the revolution was vigorously executed in the streets of Bamako and other towns by the country's secondary school and college students, who were candidate members of the elite by virtue of their schooling (or by birth, since many were the children of civil servants, professionals, or businessmen). The student association, AEEM, had local chapters at virtually every school in the country; these became part of a secret communications system for coordinating opposition activities. Recalling the failure of student demonstrations in 1979-1980, the leaders of AEEM took particular care to cultivate support among their families, teachers, the prodemocracy associations, and the labor union movement. Their demands were economic, primarily increases in and prompt payment of student allowances, but they also called for better educational facilities, more competent teachers, and greater democracy in the country's schools.

The government countered by arresting student leaders, many of the seizures taking place at night. In mid-January, the leader of AEEM, Bakary Mariko, was arrested. Demonstrators responded by attacking government buildings and looting shops on January 21-22; four people were reported killed. The schools and colleges were closed for several weeks, then reopened February 15. Mariko was reportedly tortured, but later released. When the students marched peacefully on February 2, the government responded by appointing a commission of good offices to review their complaints, but the mood within AEEM had already shifted. Henceforth, the overthrow of Moussa Traoré was its major goal. Their demonstrations of March 1, 2, and 4 were increasingly well coordinated across the nation, and increasingly militant, and peaked on March 17, when 100,000 people gathered to commemorate the death of Abdoul Karim Camara (known as "Cabral"), the martyred leader of the abortive student resistance movement of 1979-1980.

Overthrow of the Government

By March 21, just before the showdown began, more than a dozen major opposition organizations, from AEEM to the Malian bar association, were coordinating their efforts to force the government from power. In addition, large numbers of the unemployed or underemployed, especially young men, swelled the ranks of the demonstrators. Opposition forces engaged the Traoré regime in a series of deliberate, increasingly violent street battles, which involved setting fire to government offices, looting warehouses, and attacking the homes and private property of high officials and others considered close to the Traoré family. The rising violence provoked the president into ordering his army and police to fire on the crowds. According to witnesses, on March 22 the armed forces shot at anything that moved, and invaded homes in search of opposition members. In response to a televised statement by the president, advising parents to exercise greater discipline over their children, the mothers of Bamako demonstrated on the morning of March 23. Again, the armed forces fired into the crowd.

Over a period of days (March 22-25, 1991) some 300 people were killed and many more were wounded. On March 24 representatives of the associations met at the labor union headquarters to prepare a statement for their members demanding the resignation of the president and his cabinet as well as the dissolution of the national assembly and the UDPM political party. A delegation drove to the presidential palace at Koulouba (a promontory several hundred feet above downtown Bamako) where President Traoré received them but rejected their demands.

The following day, as opposition leaders resumed their meetings at the union headquarters, Traoré reportedly ordered the air force to bomb the building, but the air chief of staff refused to carry out the order. With the armed forces no longer to be counted on, senior officers saw an urgent need to restore order and an opportunity to end the impasse by assuming control. They arrested the president, his family, and key members of his entourage. (Two others, less fortunate, were incinerated by the mob.) The officers, led by Lieutenant Colonel Amadou Toumani Touré (the commander of Mali's parachute battalion), briefly constituted themselves as a National Reconciliation Council (CRN), before forming a broader government with a strong civilian majority. They may have reacted in part to Malian and foreign opposition to another military regime. Col. Touré is now Mali's interim president and head of state.

Restoration of Order

Mali's revolution took place at the top, where the elite, aided at a critical moment by senior members of the armed forces, succeeded in decapitating the regime by removing President Traoré and his wife, along with a circle of family and clan members, diehard subordinates, and business cronies; all are now regarded as utterly corrupt. Accurately or not, most Malians believe this corruption was pervasive, touching many aspects of political and economic life, and in fact so extensive that it undermined the Malian economy and led to waste of resources and stagnation of development. Corruption is closely linked in people's minds with Mali's economic failures.

As of mid-1991, the situation remained very volatile. Ministers and some other officials of the Traoré government had been arrested. In Mali there has been a widespread loss of faith in authority figures of all kinds. Although the current president, Colonel Touré, is respected for his patriotism and his professionalism, the people do not trust him. The new prime minister, Soumana Sako, although a national hero with a legendary reputation as an administrator and manager, still has to prove himself to a skeptical public. Many of those who distrust the transition government were in the forefront of the violence. They retain the framework of their clandestine organizations and could again execute carefully planned attacks on government offices, storage facilities, and individuals; thus, they remain able to mobilize many thousands of people in the streets on short notice. In all probability they would not hesitate to defend Mali's political course leading toward multiparty democracy and enhanced human rights.

The interim government is led by a Transitional Committee for Public Safety (CTSP), whose key members are its own officers: president, vice president, permanent secretary (since arrested—see below), and treasurer, led by Colonel Touré. The CTSP's other members are representatives of the major organizations that brought down the government of President Traoré. These include the two leading prodemocracy associations, the national students' association, the trade union confederation, and the handful of army officers who deposed Traoré on March 25, 1991. Malians were pleased at the arrest June 24 of two CTSP members, one of them General Traoré's former aide-de-camp and bodyguard, the other the CTSP's permanent secretary, but formerly the head of Traoré security service; each had played a key role in removing Traoré from power with a minimum of resistance, but both were widely known as the former president's enforcers and were believed to have been deeply involved in corrupt activities. Like the deposed rulers, they are undergoing investigation and awaiting trial.

The other key person in the transition government is Prime Minister Sako. He heads a cabinet largely composed of young, civilian technocrats who have taken over the national ministries and are carrying out the policies of previous government relatively unchanged, including the economic policy reform programs agreed to with the foreign donors. Sako, age forty-one, received a Ph.D. in economics from the University of Pittsburgh. He sat out the revolution in the Central African Republic, working for the U.N. Development Program. Nevertheless, he succeeded in paying the civil servants on time during his brief tenure as minister of finance (1987) under Traoré. His personal moral rectitude and his aversion to corruption are widely respected in Mali.

Although Colonel Touré constantly assures audiences that he plans to lead the military back to their barracks on January 20, 1992, the Malian armed forces at first appeared divided and confused about their proper role. On May 4, 1991, elements of the army and police visited a Bamako school and tried to enlist student support for a protest march to demand better living conditions. The students, who had fought bloody skirmishes with the same forces only a few weeks before, poured out of their classrooms and ridiculed the demonstrators, creating a melee. They then sacked three local police stations. On July 15, Major Lamine Diabira, Mali's minister of the interior, was arrested for allegedly plotting to overthrow the transitional government. A longtime friend of Colonel Touré, Maj. Diabira reportedly wanted the military to abandon plans to restore civilian authority. Within minutes after Major Diabira's arrest was announced, tens of thousands of Malian civilians filled Bamako's city streets in a show of support for the transitional government.

Political Outlook

The country has entered a period of political uncertainty, from which it is unlikely to emerge before mid-1992. Following the adoption of a new set of political institutions in January 1992, it will take several months for the new head of state, prime minister and cabinet members, national assembly, and court system to settle into operation.

Malian politics today has some very attractive features, not least of which is a tremendous enthusiasm for democratic principles and faith in the ability of free people to improve the quality of their lives. If the current government's transition plan works smoothly, if the new constitution and related institutions appear on schedule, and if the new government shows signs of dealing effectively with Mali's immediate social and economic problems, the investment climate is likely to be very attractive by mid-1992.

The victors of the recent revolution mean to make their achievements permanent by creating a new set of political institutions. In the excitement, political energies are being released in all directions, adding to the enthusiasm. As of early July, there were some thirty-six political parties, with new ones announced almost daily. Since many of these are vehicles for single-purpose interest groups or ambitious individuals, a vigorous shake-out may be anticipated over the coming months, with at most five or six parties emerging as significant.

At present the leading parties are the two prodemocracy associations, newly transformed into parties. the Alliance démocratique malienne has adopted its acronym, ADEMA, as its party name, while the Comité national d'initiative démocratique is using CNID. A third major party is US/RDA, newly liberalized. It draws most of its support from old-line Marxist conservatives. Malian observers believe that if elections were held today, the presidential victor would be Alpha Oumar Konaré, who resigned recently as publisher of *Les Echos* in order to lead the transformation of ADEMA from an association into a proper political party.

The ADEMA campaign platform, adopted in May 1991, criticizes structural adjustment as having tried to improve the balance of payments through drastic reductions in domestic demand and supply ill adapted to an inelastic economy. These measures, it argues, have produced high social costs, especially unemployment and disinvestment, deterioration of public health and sanitation, and a general deterioration in living conditions for the poorest segment of the population. It promises to balance structural adjustment requirements against the country's needs for rapid economic growth.

The current political calendar presupposes an orderly progress towards creation of a third Malian republic: a national convention (July 29-August 12, 1991), to debate, amend, and enact a national constitution and a law governing establishment and conduct of political parties (both of which already have been widely publicized in draft form); a national referendum to adopt the constitution and party law that emerge from the convention; a series of national elections, the first to choose officials at the municipal and other local levels, then another to choose members of the unicameral national legislature, and finally, in January 1992, an election to choose Mali's new president, who will serve a five-year term.[16] The new constitution is to come into effect with the president's inauguration in January 1992. At that time, Colonel Touré insists, he will gladly return to his regular job. For his part, Prime Minister Sako is widely believed to have presidential ambitions, but he insists that he has never sought any office and wishes only to serve his country in his present capacity. Some Malian observers expect he will be a presidential candidate in 1997 or 2002. The revolution, while generating strong commitment to laudable political ideals, is also creating expectations about the future (especially about economic improvements) that seem destined to be disappointed, inasmuch as Mali's basic economic disabilities remain unremedied. The infectious hope candidly expressed by Malians raises questions about how well they understand the principles they are embracing, and how strong their support will be two or three years from now when they recognize again the realities of Mali's poverty and its economic development problems. The degree of disappointment, and the Malians' ability to cope with it and channel it into renewed efforts to improve their country, will have much to do with Mali's political stability over the medium term (up to five years).

The Outlook for Economic Reform

Since the revolution, Malian doubts about economic policy reform have diminished considerably. Not only does Mali depend upon foreign aid for much of its income, but a new generation of technocrats is now wielding authority in Malian government ministries. Some of these young Malians, educated and trained abroad, have professional experience in such institutions as the World Bank and the United Nations. Many share the free market ideology, theoretical orientation, and practical approaches of their counterparts at donor agency offices in Bamako. As the World Bank's Resident Representative in Bamako has said, "The Malians have internalized structural adjustment."

In contrast to the technical specialists running the Malian government's economic programs, the average educated Malian has only a vague idea of the role of economic reform in Malian life, but links it loosely with the policies of the previous government. Malians do not blame structural adjustment and economic policy reform for the corruption, but they believe that in certain instances the Traoré regime may have implemented reform corruptly, or at least in ways that caused needless hardship to other Malians.

Within two weeks of the change in government, CTSP representatives and cabinet ministers were conferring with the donors to assess the damage to Mali's economic program and to plan for a return to compliance with International Monetary Fund and World Bank requirements. They were concerned that there will be a 1991 budgetary shortfall caused by tax revenue losses and expenditures to repair damage, both resulting from the violence. Preliminary estimates of total damage came to 40 billion CFA francs (about $140 million), of which 22 billion CFA francs was a loss to the Malian government, involving (1) destruction of government office buildings, (2) looted grain stores of the government's emergency food reserve program, and (3) tax revenues not collected due to reduced economic activity during the revolution (and due to the burning of tax records during the attacks).

The government's immediate shortfall problem appears to be on its way to solution: when Mali's foreign donor friends met in Paris July 3, 1991 they pledged 8.5 billion CFA francs ($29.3 million) in new funds, which exceeded what the government described as its essential minimum requirement, 4.9 billion CFA francs ($17 million), to cover the estimated 1991 budget gap.

The Paris meetings did not fully resolve the transition government's financial problems stemming from the revolution. In its last throes the Traoré regime agreed to restore student allowances, and the transition government has given assurances it will honor that commitment. A far more expensive demand awaits resolution: UNTM has continued to press for its major objective, a 50 percent increase in wage rates nationwide. Since virtually all workers in the money sector of the economy, including civil servants, would be covered, the cost to the government of Mali would severely disrupt the national budget, which is carefully scrutinized and in effect controlled by the donors. The new government, lacking resources, has tried to compromise by offering a modest wage increase now and a gradual increase to 50 percent over several years. However, the UNTM national congress at Bamako July 2-3, 1991, ended with a ringing pledge to stand firm on the 50 percent demand.

Foreign assistance flows will continue as long as the government is perceived to be making its best efforts to achieve the goals set out in the structural adjustment program. The majority of any increase will come from the multilateral lenders, but some bilateral donors, notably France and West Germany, are likely to increase assistance as well. Donors will also continue their forgiveness of official debt obligations.

There is little likelihood that Mali will repudiate its commitments to structural adjustment and economic policy reform. With the donors providing over half the government's receipts, the Mali leadership must heed the conditions on which continuation of this income depends.

AFTERWORD

A decade of structural adjustment and economic policy reform culminates in widespread public violence, a crisis of legitimacy, a popular uprising, and great enthusiasm for creating a new constitution and a new set of democratic institutions. Are these economic and political events related? Certainly. Did structural adjustment lead to revolution? Was the Traoré regime overthrown because it had yielded sovereignty over Mali's economic policies to foreign donors and experts? Do Mali's new leaders and the public that now supports them repudiate economic policy reform? To all these questions, the answer is clearly "no." Did structural adjustment and economic policy reform fail to deliver enough, quickly enough, to the Malian people to prevent Moussa Traoré's downfall? Perhaps. Do Malians expect great economic progress from their new political system? Do they expect to live better in an economically and politically progressive Mali? Without a doubt they do, and without a doubt Mali's underlying constraints on economic progress will be felt again, with political consequences that can only be guessed at today. Mali's democracy could survive a drought, because a drought is a natural calamity, but can it survive another five years of slow growth, unemployment, and stagnant per capita incomes? There is no way to judge with any confidence.

The relationship between economic conditions and singular political events (including regime changes) is no clearer after the Malian revolution than before. Thus, the lessons of Mali's economic policy reform program and Mali's revolution, if there are any at this early date, seem unlikely to find easy application elsewhere. One point, however, deserves emphasis. For most of the decade during which the donors held Mali's feet to the fire, while the country's leader and his technocrats struggled to comply with structural adjustment, the donors made no similarly vigorous effort to urge political reform upon President Traoré. Although the donors usurped Mali's economic sovereignty without hesitation, they drew back from counseling political liberalization, or a lightening of political regulation and control, or freedom of political enterprise. Perhaps, as Mali's economy became freer, more flexible, more transparent, and more accountable, the people were struck by the growing contrast between their economic and their political lives. In the end it was the political system imposed upon them by Moussa Traoré that they rejected, not the economic system imposed upon them by the donors.

Notes

1. For examples, see Derrick J. Thom and John C. Wells, "Farming Systems in the Niger Inland Delta, Mali," *The Geographical Review* 77, 3 (July 1987).

2. "There has been a drought in every decade of Mali's recorded history." *Country Development Strategy Statement, FY 1990-1994*, U. S. Agency for International Development, Washington, D.C., May 1988; p. 14

3. Figures for 1987, from Table 32, "Education," in *Sub-Saharan Africa: From Crisis to Sustainable Growth*, A Long-Term Perspective Study (Washington, D.C.: The World Bank, 1989), p. 274.

4. For detailed information about African political activity prior to independence, see the following sources: William J. Foltz, *From French West Africa to the Mali Federation* (New Haven: Yale University press, 1965); Thomas Hodgkin and Ruth Schacter Morganthau, "Mali," in *Political Parties and National Integration in Tropical Africa*, edited by jmes S. Coleman and Carl G. Rosberg, Jr. (Berkeley: University of California, 1964); Ruth Schacter Morganthau, *Political Parties in French-Speaking West Africa* (Oxford: Clarendon Press, 1964); Frank Gregory Snyder, *One-Party Government in Mali: Transition Towards Control* (New Haven: Yale University Press, 1964).

5. Cf Michael Crowder, "History of French West Africa Until Independence," in *Africa South of the Sahara*, 1989-90 (Gale Publishing Co., 1989), p. 78.

6. Information about political events during the first and second Malian republics is largely drawn from the following sources: Joseph Roger de Benoist, *Le Mali* (Paris: L'Harmattan, 1989); Cheick Oumar Diarrah, *Mali: Bilan d'Une Gestion Désastreuse* (Paris: L'Harmattan, 1990); James Pascal Imperato, *Mali: A Search for Direction* (Boulder, Colorado: Westview Press, 1989).

7. Cf. Sennen Andriamirado, "De la médiocrité à la boucherie," *Jeune Afrique* no. 1579 (April 9, 1991), p. 7.

8. Press accounts reported a rivalry between the *clan de monsieur* and the *clan de madame*. "Mali: Monsieur et Madame," *Africa Confidential* 30, 3 (February 3, 1989).

9. As late as 1988 or early 1989, a joint World Bank/UNDP review of structural adjustment in Africa judged Mali's overall reform efforts "weak." *Africa's adjustment and Growth in the 1980s*, (Washington: The World Bank, 1989), p. 32.

10. An evaluation of EPRP carried out by AID concluded that the program was especially useful in its early years, when Mali's relations with the World Bank and IMF were in difficulty: "U.S. presence and continued support gave an otherwise beleaguered Malian Government an important psychological lift. The EPRP is viewed as very 'human'—structural adjustment with a human face. The role played the VED in making reform 'sellable' is significant." Michael A. Rugh, et. al., *The A.I.D. Economic Policy Reform*

Program in Mali, A.I.D. Impact Evaluation Report No. 74 (Washington, D.C.: U.S. Agency for International Development, March 1990), p. 13.

11. "Le climat des investissements au Mali: Etude préliminaire," Aide Mémoire (Washington, D.C.: The World Bank, International Finance Corporation, Foreign Investment Advisory Service, undated).

12. "Décret portant détermination de la procédure de fixation des prix," Decree number 89-195, Office of the President, General Secretariat of the Government, June 15, 1989.

13. For a description of the program's objectives, see "Les réformes économiques au Mali et le rôle des cadres dans leur réussite" (Bamako: Commission Economique, Bureau Exécutif Central, Union Démocratique du Peuple Malien, undated). See also John M. Staatz, Josué Dioné, and N. Nango Dembélé, "Cereals Market Liberalization in mali" *World Development* 17, 5 (1989) for analysis of its achievements.

14. *A note on monetary policy.* In the midst of the disaster that resulted when Mali withdrew from the French franc zone in 1962, creating the Malian franc, the government negotiated an agreement with France allowing Mali to relink its currency to the French franc in 1967, devaluing the Malian franc by 50 percent in the process. However, other members of the West African Monetary Union (UMOA) would not let Mali join the Union until the government made further efforts to reduce its budgetary and external deficits and foreign indebtedness; having met these requirements, Mali was finally admitted in 1984. (A border dispute with Burkina Faso also played a role in the delay; see David Leith Crum, "Mali and the U.M.O.A.: a Case-Study of Economic Integration," *Journal of Modern African Studies*, 22, 3 (1984).)

The UMOA is the organization through which the French republic provides a stable monetary system to its former colonies in West Africa. The French treasury maintains a UMOA operations account in Paris, governed by a committee dominated by French officials. African member governments have only marginal influence on the parity value of the CFA franc or on the overall stability of the UMOA system. Membership in the UMOA means that each member country is technically obliged to repay its capital account obligations to the French treasury, but the French government continues to give de facto grants to Mali and other poor members by repaying their accounts due.

The institution through which UMOA operates in Africa is the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), which acts as central bank for the seven UMOA members, Mali among them. The BCEAO regulates the money supply and sets bank rates separately for each member, taking into account the state of its economy and its balances with the French treasury. Member countries thus sacrifice sovereignty over their own money and banking, in exchange for a stable exchange rate and a convertible currency.

An additional attraction of the system is that any amount of CFA banknotes may be converted into French francs upon presentation in France; the transaction is not recorded. The French francs thus obtained may be converted into other foreign currencies in accordance with existing French regulations. In recent years this has meant virtually free conversion.

15. The cigarette/match complex was retained for political reasons, for although it has Malian ownership it was built by Chinese engineers using Chinese funds and equipment, and is still advised by Chinese technicians.

16. The draft constitution appears to be closely modeled on that the fifth French republic. Its preamble, which asserts a government of laws and pluralistic democracy, is followed by a declaration of individual rights. There are chapters on the presidency, the ministerial government, the legislature, relations between government and legislature, territorial administration, international treaties and agreements, and the judiciary, including a supreme court, a constitutional council (to oversee elections and referenda), and a high court of justice (to try treason cases). Final chapters treat of African unity and constitutional revisions, and provide that the CTSP may govern until the constitution takes effect. The draft gives broad powers to the president, who is eligible for two five-year terms: head of state and commander of the armed forces, he names the prime minister and three of the nine constitutional council members, chairs cabinet meetings, is president of the council of judges, grants amnesties, promulgates the laws, negotiates and ratifies treaties. Under certain conditions he may dissolve the national assembly (but not the high council) or, for a limited time, govern by decree. The high council (a consultative upper house) represents Mali's geographic territories; its members (national counselors) are elected indirectly. The national assembly, whose members (deputies) are elected directly by universal suffrage, enacts the country's laws (which cover a broad range of individual and collective activities, including the government's budget), and by a vote of censure it may force the cabinet to resign.

The draft charter for political parties allows free formation of any number of parties, thus institutionalizing multiparty politics, but establishes legal guidelines for party organization and administration. These appear designed to protect the public order, the political process, and party members against unscrupulous leaders; for example, the charter requires that party officials and candidates be elected democratically, and it requires parties to file annual financial statements with the interior ministry. It allows the government to subsidize party activity; likewise, parties may borrow funds interest free from the state. Parties may organize and conduct electoral campaigns, publish newspapers and other journals, and communicate freely in Mali or abroad. If a party forms alliances or coalitions with any other organization, in Mali or abroad, it must report the fact to the government. Parties in power are warned not to take over the state or limit justice or freedom of the press, while those in opposition are urged to avoid pointless criticism. Parties are prohibited from creating military or paramilitary organizations, from basing membership on ethnic or religious criteria, and from advocating principles inimical to law and morality or threatening to the national territory and its republican government.

Some Basic Facts About Zambia

Present Official Name: Republic of Zambia

Year of Independence: 1964

Pre-Independence Status: British colony (Northern Rhodesia)

Government

Capital City: Lusaka
Head of State: President Fredrick Chiluba
Head of Government: Vice President Levy Mwanawasa
How/When Present Government Came to Power: Multiparty elections (1991)
Number of Officially Permitted Political Parties: No limitation

People

Population: 7.8 million (World Bank estimate for mid-1989)
Average Annual Population Growth (%): 3.7% (World Bank estimate from 1980-1989)
Major Languages: English (official), Bemba, Lozi, Nyanja, Tongaa, others
Religions: Christian (50-75%), Muslim and Hindu (1%), and traditional belief systems
Number of universities: 2

Economics

Area: 290,586 sq miles (752,614 sq km)
GDP ($): $4,700 million (World Bank estimate for mid-1989)
GNP per capita ($): $390 (World Bank estimate for 1989)
Major Seaports: landlocked
Major Exports: copper, cobalt, zinc
Other Present or Potential Sources of Income: lead, coal, emeralds, gold, silver, uranium, hydroelectric power
Major Imports: machinery, transport equipment, petroleum and fuels, electricity, basic manufactures, chemicals
Major Trading Partners in Descending Order of Importance:
Imports: UK, Saudia Arabia, Japan, West Germany, USA
Exports: Japan, France, Italy, India, Belgium/Luxembourg
Total External Debt ($): $6,874 million (World Bank estimate for 1989)
Debt Service Ratio (Total Debt Service as % of exports of goods and services): 11.3% (World Bank estimate for 1989)
Monetary unit: kwacha

Military

Size/Breakdown: Active 16,200 (army 15,000, air force 1,200), paramilitary 1,200 (IISS estimate for 1991)
Annual Defense Expenditure ($): $213 million (IISS estimate for 1991)

Chapter 8
The Politics of the Implementation of Structural Adjustment in Zambia, 1985-1987

Tina West

Introduction

In October 1991 Kenneth Kaunda and the UNIP party were voted out of office after 27 years in power, since independence in 1964. When rival parties threatened to defeat UNIP in the 1973 elections, Zambia became a one-party state, but the Kaunda government continued to hold national elections at five-year intervals. The 1991 election was called in response to strong domestic pressure for a return to a multiparty system. In the end Kaunda carried out his often-repeated promise to step down when defeated at the polls. His successor, Frederick Chiluba, for many years head of the Zambia Conference of Trade Unions, UNIP's strongest unofficial opposition, has inherited Kaunda's nation-building accomplishments and a dauntingly politicized and run-down economy. In his first months in office he has signaled to domestic and aid donor audiences his understanding of the nature of the problems he has inherited and his commitment to change.

Kaunda's accomplishment is that civil society in Zambia can support peaceful change, although it has been damaged by economic disintegration and years of UNIP double-talk about the economy. Zambians who have entered the labor force in the last 10 years have known only grim and increasingly chaotic conditions. Added to high formal sector unemployment were the partial breakdown of law and order in the cities, ineffective government health and education services, and the undercurrent of the AIDS epidemic.

Older Zambians, while they may not have participated in the struggle for independence, were active citizens before the imposition of the one-party state and afterwards resisted, not always successfully, UNIP's attempts to encroach on the democratic practices established in the early years of independence. Some Zambians pursued human rights violations through the courts and, in general, drew attention publicly to the gaps between UNIP's rhetoric and practice. The churches, the labor unions, and urban crowds were able, on occasion, to force reversals of government policies. UNIP, up to a point, permitted a free press, an independent judiciary, and the exercise of civil rights because limited democracy seemed to work as part of a survival strategy for a party with far from universal support.[1] The new MMD government thus came into power with the votes of people who not only wanted change but had worked to uphold democratic values.

Civil society had no means to resist the politicization of the economy by UNIP. The Kaunda government never garnered much praise for its handling of the economy; its strengths were in its maintenance of a measure of civil freedom and order at home and its strong support of majority rule in southern Africa. Zambia's economy, dependent on copper for export earnings, began to show signs of weakness before the end of the copper boom in 1974. As in most African countries, faulty economic policies compounded the effects of numerous negative external shocks. These policies came under criticism in the early 1970s. Political opponents charged that imprudent government spending and patronage politics threatened Zambia's economic health. Kaunda's response was to create the one-party state in 1973. The economic crises from 1974 on subjected the UNIP government to constant domestic criticism. However, the government steadfastly pointed to external factors as the prime causes. Although occasionally admitting to mistakes, Kaunda and UNIP characterized critics as enemies of the state, published economic misinformation, encouraged fears of foreign economic domination, and generally inhibited coherent public discussion of the economy.[2] Many Zambians felt that the government deserved some blame. The inefficiency of many state agencies was clearly observable but the reasons why government economic policies were inappropriate were less widely understood.

Zambians have not yet experienced an economy that functions at a sustainable level. They experienced a boom from 1964 to 1974 and bust thereafter. Neither did they know bureaucratic structures that functioned efficiently during the UNIP regime. At mundane levels the state failed to enforce implicit contracts; for example, government agencies did not pay their utility bills, state-educated teachers did not fulfill their three-year obligation to teach in state schools, and the productive use of credit was misunderstood at all levels. Undisciplined and irresponsible behavior by the government muddied economic feedback, allowing Zambians to believe that attaining incompatible objectives was possible. Not surprisingly, interest groups that wanted change, particularly the trade unions, also wanted to preserve those parts of the system that benefited them, such as subsidized goods and wage increases unrelated to productivity increases. Capitalism's acceptance of the risk of failure for firms and individuals seemed unacceptably cruel to many Zambians, reared on UNIP's promises to provide full employment, cheap food, free services, and low taxes.[3]

Zambia under Kaunda did not have the cadre of powerful bureaucrats convinced of the value of neo-classical economics and supportive of IMF prescriptions that Haggard and Kaufman concluded was necessary for sustained economic policy change.[4] Within the sole political party, UNIP leaders coopted and contained politically ambitious individuals with a range of opinions. Policymakers were divided between proponents of regime survival through greater efficiency, the "technocrats," and the early stalwarts who believed that the populist/patronage economic system must not be changed, the "socialists." Zambia's "technocrat" faction members were not ardent proponents of market solutions but were more worried than the "socialists" about the economic decline. Working with K.Y. Amoako, the World Bank resident representative from 1982 to 1985, a small number of "technocrats" convinced President Kaunda to attempt a comprehensive structural adjustment program. The members of even this small group had doubts about the measures. Added to their arguments, however, were the facts that lack of foreign exchange was strangling economic activity and substantial external funding would only be available if Zambia agreed to IMF stabilization and structural adjustment programs. Economic policies alternately emphasizing "efficiency" and "socialist" measures could all be accommodated under the official Zambian ideology of Humanism formulated by Kaunda. Humanism, allowed Kaunda to reinterpret the national interest at will within its commitment to a mixed economy. All factions within

UNIP used Humanist rhetoric to advance their arguments. Questions of clarification about the shifting official party line were frequently asked when policymakers spoke at public meetings. The unchanging metaphor for the relationship between state and people, however, was that of father and child.

His monopoly of economic policy initiatives served President Kaunda's need to balance "technocrat" and "socialist" factions within the party elite. By alternating economic policies between "efficiency" and "socialism" each faction could take a turn in power, although the inconsistencies damaged the economy and finally the government's credibility. IMF stabilization in the late 1970s was followed by creation of state farms and a spending spree in the early 1980s. A return to the IMF-World Bank fold in 1982 was followed by a complete repudiation of structural adjustment in 1987 and a period of "self-reliance." An IMF "shadow program" began in 1989. The failure of each initiative was accompanied by the temporary eclipse of each faction.

The Kaunda government successfully used each Western-oriented initiative to secure external aid, in spite of factors that signaled its resistance to substantive change. Maintenance of limited democracy served it well in its relations with Western multilateral and bilateral development lenders and aid donors. President Kaunda never made the mistake of approaching the IMF and the World Bank for new programs when the "socialists" were in key economic positions. It is not clear whether in the early 1980s the international institutions were aware that Kaunda's economic policy inconsistency had a political logic. However, two of Zambia's most blatant governance problems were well documented: President Kaunda's use of his wide powers of appointment to shuffle job holders frequently, thus weakening institutions, and his habit of announcing new policy initiatives with little preparation, which, combined with the government's institutional weaknesses, usually led to implementation failure.[5] Furthermore, by the early 1980s Zambia's income distribution was one of the worst in the world, although the international institutions did not publicly probe the extent of wealth derived by the elite from illegal exports (principally of gemstones, ivory, and subsidized commodities). With the income from illegal trade and access to state resources the elite continued to flourish even though the official economy was in dire straits. Its members thus had a greater stake in the status quo than was apparent from an analysis of the official economy.

IMF and World Bank proposals for new economic policies thus did not have a natural constituency other than the foreign business community. Since independence the government had taken sole responsibility for directing economic development. Although the UNIP regime seemed to hope for a solution to the economy's problems, it was not prepared to implement policies that undercut its survival strategy. The Kaunda government's obfuscations helped it to resist change by confusing public understanding. There was no domestic consensus that the existing system was inherently unworkable, and there was generalized mistrust of capitalism and of foreigners' motives for recommending change. There was, therefore, no sense of "ownership" of the adjustment program.

The impetus for a shift in national attitudes about development could not come from outside given the ingrained distrust of foreign motives. However, the economic reforms advocated by the donors assumed a radical change in attitudes as well as policies. From believing that the government's role is to provide higher levels of consumption and services, i.e., measuring development in terms of consumption, people must come to believe that it is proper for individuals to assume what capitalist systems regard as individual or business risk while expecting the state to act consistently to encourage productivity increases.

The dominance of political over economic logic, the weakness of government institutions, and the lack of a constituency for structural measures were not the only obstacles to the successful implementation of structural adjustment. The government was also flat broke by 1985 and, as Gulhati points out, the structural adjustment program agreed to in 1985 allowed for no margin of error.[6]

On the other hand, the leadership had taken strong stabilization measures in the past. Although it had not sustained them, there had been extenuating circumstances, including drought, copper price falls, and other external economic factors, as well as less-than-promised donor support.[7] The government made a good beginning at implementing the sectoral adjustment programs negotiated during 1985. It could not be refused funding on those grounds.

Although the programs quickly slid into noncompliance with the conditions, the lesson of the Zambian experience with structural adjustment in 1985-1987 is not that the program should never have been attempted. It would have been inequitable not to have given the Zambian government a chance. The important lesson of the Zambian experience for practitioners is that negotiating agreements with well designed and appropriate conditions is only the first step, and, since the leverage is mostly on the donor side, it is a relatively easy step. Once implementation starts, donor leverage in the form of the ability to discontinue funding is too blunt an instrument to use on the day-to-day problems of implementation. Economists may debate whether the program attempted too much too soon or in the wrong sequence, but the economy in 1985 was in sufficiently bad shape to justify drastic treatment. The government's failure, as a result of political pressures and technical errors, to control inflation by sound fiscal and monetary management was the proximate cause of the program's failure. The "policy dialogue" between the government and the donors during implementation did not check the progressive failure of the program.

Non-compliance presented the donors with difficult choices. The Zambian case raises a series of questions.

- Should the World Bank have suspended its program sooner?

- What should donors do when the government is obeying the letter, not the spirit, of the agreement?

- Is it appropriate for donors to insist on day-to-day involvement with implementation decisions when the government, like Zambia's, has little experience or sympathy with the principles of market systems?

The Zambian case illustrates as well, some common experiences with the implementation of complex change.

- The factors that contribute to implementation failure can come from unexpected directions.
- Conversely, agreements could devise in advance responses to some probable complications, e.g., weaker than forecast world copper prices.
- Control of inflationary factors is vital.
- The lack of mechanisms to guarantee that donor pledges are delivered as promised complicates implementation efforts.
- "Buzzing, blooming reality" and the complexity of implementation suggest that in-country decision making by donors is preferable to long-distance monitoring.

In order to understand the problems of implementation, the political considerations that affected it, and the relations between government and donors, the paper presents chronologically the efforts to implement trade liberalization and agricultural reform, the segments of the program that addressed Zambia's need for new exports and greater productivity in agriculture. Some of the actions taken during implementation reflect Zambia's unique political circumstances—and underline the need for practitioners to have a thorough understanding of a country's politics and history—but some illustrate common implementation problems encountered in the course of changing from a centrally planned economy to a market-based one.

Trade Measures: Radical Change Implemented, Then Reversed

To repeat, Zambia is one of the countries in Africa most clearly in need of economic change. Since 1974 not only has its major export, copper, been subject to declining world prices, but production and profitability have fallen as it has become steadily more expensive to extract copper from Zambia's aging mines. Copper (and the cobalt associated with it) have provided about 95 percent of Zambia's foreign exchange earnings since independence in 1964, a figure that is unchanged in spite of a drop of about one third in annual production since independence and a fall in the real price of copper from over $4,000 per metric ton in the 1960s to $1,970 in 1975 and $1,478 in 1985.[8] The prescription is obvious: develop new exports. Zambia has other resources in the form of other minerals, good agricultural potential, and one of the better manufacturing sectors in sub-Saharan Africa. Kaunda's government paid lip service to the objective of developing new exports but balked at maintaining economic policies that helped exporters, above all a realistic exchange rate.

Like other states in Africa, the Kaunda government borrowed heavily abroad in the 1970s and then turned to the IMF when its reduced creditworthiness made further borrowing from private sources impossible. A fairly successful IMF program in the late 1970s, implemented by a small group of technocrats, was followed, when copper prices rose temporarily, by a two-year spending spree by the "socialist" faction within the one-party state. The technocrats, back in charge of economic policy in 1982, negotiated two more IMF stand-bys whose terms were largely but not completely fulfilled, a shortfall which led to cancellation by the IMF. Donor disbursements did not equal promises made to the government.[9] Weak copper prices, drought, and rising debt service added to the economy's problems.

By 1985 the official economy was virtually at a standstill, and the government agreed to a comprehensive package of structural adjustment measures. Undergirding the package were IMF-imposed stabilization measures and performance targets. The World Bank made sectoral adjustment loans to encourage industry and agriculture, tying the loans to policy changes: liberalizing trade, credit, and agricultural marketing and reducing maize meal and fertilizer subsidies USAID made a grant to the agricultural sector with conditions similar to those of the World Bank.

The World Bank also headed projects to rehabilitate the copper mines and to begin the process of requiring state-owned enterprises in the industrial sector to operate on private sector principles, that is, without special privileges and government subsidies. The bilateral aid agency members of the Consultative Group for Zambia—the Western donors—provided technical assistance in various areas and funding for the foreign exchange auction, which was the key measure for changing relative prices radically in order to encourage new exports.

Implementation of the trade package began impressively. Two key trade liberalization measures were implemented in rapid succession in October 1985. The government greatly simplified import licensing procedures, which had borne the burden of allocating scarce foreign exchange and had been much abused in the process. Import licenses became available to all comers, including holders of illegal foreign exchange, in an effort to unify the legal and parallel economies. Then the bank of Zambia began to auction foreign exchange to holders of import licenses.

Incentives to export quickly produced responses from the business sector. The weekly foreign exchange auction, which began on October 5, forced all bidders to compete on the basis of their financial strength, not their political connections. Since the exchange rate dropped immediately to one close to the parallel market rate, the new rate, added to an existing foreign exchange retention scheme for exporters, provided sufficient incentives to provoke energetic efforts by agricultural producers and manufacturers, public and private, to find export markets. "Non-traditional," that is, non-mineral exports, although starting from a low base, seemed poised to expand significantly. The newspapers in the following year reported numerous export contracts, regional and overseas. The auction worked well for its first nine months. Why did the government not only play down its success but effectively sabotage it?

The main incentive to exporters, the huge devaluation, caused a political uproar. There is no evidence that, once the government realized that a major devaluation was an unavoidable IMF requirement, it searched for a politically astute way to implement devaluation. There had been public and private missions to Uganda to observe their auction mechanism, and there was at least one strong advocate of an auction in the government's economic policy team: Dominic Mulaisho, the president's economic adviser. There was little debate after President Kaunda declared his support for an auction mechanism. In mid-1985 the government apparently perceived its alternatives to be either the auction or the announcement of a drastic devaluation.

The auction looked like the better political choice because the government, in spite of the evidence from the parallel market rate, apparently did not believe the auction rate would approach the parallel rate. Most Zambian politicians hoped the auction would lead to a rate stronger than the K4.50 per US dollar that the IMF had proposed for a one-step devaluation. The government did not prepare the public for the possibility of a large devaluation. It did make an effort to convince the public that the new system would be better than the old administered one, which had become a public scandal and a political liability: it touted the auction as a way back to prosperity. Neither the public nor the politicians were prepared for the magnitude of the devaluation that occurred in the auction's first weeks. Lost in the shock, the public education effort faded away.

Zambians had taken an overvalued rate for granted for years, seeing the benefits for consumers of imported goods without perceiving the disincentives to productivity and exports. For most of the period between independence and the inception of the foreign exchange auction in October 1985 the rate had been fixed at K1.4 to $1. The kwacha had been devalued gradually from 1983 to 1985, when the IMF insisted that the pace of devaluation speed up since copper foreign exchange earnings were dropping drastically. The dramatic devaluation at the start of the auction period was, therefore, unprecedented. Neither ordinary citizens nor relevant government officials had had to cope before with the effects of a significant, sudden devaluation.

In the first three auctions in October 1985 the kwacha plunged from its fixed rate of K2.2 to the dollar to K7.00. The rate remained at about the K6-to-K7 level until June 1986. The Bank of Zambia (BOZ) varied the amount sold each week a bit in order to steady the rate. From the point of view of the donors the auction worked very well during this nine-month period. The bidders, the commercial banks, and the Bank of Zambia all followed the rules, proof that the design was good. The rate had fallen to about the pre-auction parallel market rate and then stabilized, a sign that the supply of foreign exchange was about right. Capacity utilization in industry was up for all companies, except a few parastatal basket cases. And exporters were visibly expanding in response to the radical change in relative prices, evidence that the objectives of the auction were being met.

USAID urged that more information be made public, but to the participants the process was much more transparent and predictable than the old, thoroughly politicized system of allocated import licenses and foreign exchange, and they quickly gained confidence in its probity. There were problems: donor funding flows were slower than pledged, and the agricultural sector was demanding less foreign exchange than was necessary for rapid growth, because prices for imports had tripled. More importantly, the growth of the money supply exceeded its targets from the beginning of the auction, even though the donors had repeatedly warned that strict control was imperative to contain inflation.

The money supply growth rate was a symptom that even the technocrats supporting the adjustment program could not hold the line against the demands of less convinced Zambian politicians. The Zambians reacted to the weakening of the kwacha with outrage and horror since they had not expected the kwacha to fall so far.[12] Consumers saw their import-purchasing power reduced by two-thirds in two weeks. City dwellers, including members of the elite, were especially hard hit. Because interest rates, petroleum prices, and maize meal prices were increased at the same time that the auction was introduced, the people, including many politicians, blamed the auction for all the price increases. Popular and political pressure on the government to make imported goods "affordable" again eventually led to money supply increases.

There were several pressures on control of the money supply. Although the process of auctioning foreign exchange was straightforward, the change to a new mechanism affected other parts of the government's financial system. The Bank of Zambia had problems with the revaluation adjustment accounts; these problems increased the money supply.[13] More importantly, the devaluation made it harder for the government to control the budget deficit. Gulhati goes so far as to conclude that the auction should not have been introduced before the government had gained control of the budget, cut the inflation rate, and built up some foreign exchange reserves.[14] Import-intensive parastatals, already financially weakened by years of inadequate profit margins, found stronger private sector firms, many of them foreign owned, taking an increasing share of the available foreign exchange.[15] The parastatals' successful efforts to acquire funds to enable them to bid in the auction were another source of monetary expansion.

To politicians opposed to reform, the auction seemed a ready-made scapegoat. The technocrats and the donors did little to combat effectively the public perception that the auction was responsible for untold misery. The argument that it eliminated corruption was undermined when luxury goods—food, clothing, furniture, appliances, etc.—began flowing into the country. These were purchased, not through the auction, but under import licenses requiring no foreign exchange from the auction, by importers who had their own foreign-exchange holdings. The World Bank and IMF hoped that, by this means, illegal foreign exchange holdings would be used for needed imports and would ease the foreign exchange shortage. Instead, since these consumer goods had not been available in Zambia for years and, therefore, the political elite and the expatriate and diplomatic communities had been discreetly buying them abroad, their sudden appearance was linked with the auction, an impression the leadership did virtually nothing to dispel. The Zambian government had agreed to overhaul the tariff structure, but it quickly fell behind on its planned timetable of hearings and reports and reviews, and so an essential instrument for controlling the composition of imports was unavailable.

The government did not act to contain the political pressures engendered by the auction. It is not clear whether the World Bank and the IMF appreciated what a political irritant the flood of luxury goods was in Zambia, where rich and poor in the cities buy their goods from the same stores. The popular reaction scared Zambian politicians anxious to conceal the extent of income disparities. The argument that inefficient parastatals should be allowed to fail seemed like nonsense in the face of the public's concern with the steady decline in formal sector jobs. It was politically unthinkable that parastatals should be shut out of the auction, hence the expansion of credit to the parastatal sector. The design of the auction, however good technically, was not proof against all politically motivated decisions. Nor were the donors as conscious in the mid-1980s as they are now of the value of including a public awareness program as part of an economic reform effort, not only to increase transparency and policy consistency but also to provide a forum to correct public misconceptions.

Although the exchange rate remained stable for nine months, two events occurred (one in February, the other in April, 1986) that reduced the prospects for the auction's continued smooth operations. In February 1986 four major parastatals were brought into the auction: the Tazara railroad, the Tazama petroleum pipeline, Zimoil, the petroleum parastatal, and Zambia Airways. This was done in the interests of reducing as far as possible the number of government agencies that received allocations of foreign exchange outside the auction. However, it also distorted the auction, first, because all four were essential services whose foreign exchange needs would be met ahead of those of other bidders and, second, because Zimoil and Zambia Airways regularly needed amounts measured in millions of dollars while the largest bids by other participants were no more than several hundred thousand dollars. The Zambian business associations, which by early 1986 had overcome their initial hesitancy about the auction, protested, but the IMF apparently insisted. The feared effect, that ordinary bidders would receive less foreign exchange than before the change, did appear, particularly after September 1986.

In this seemingly small technical change, the primary objectives of the auction were lost amid concerns over unrelated issues: (1) the drain on the government budget from awarding foreign exchange to the four parastatals at the auction rate but in larger than expected amounts (because of loss-making Zambia Airways's IATA payments and the breakdown of the government's revolving loan for petroleum purchases) and (2) the desire to reduce to a minimum the transactions outside the auction. This clumsy procedure also solved the urgent government problem of how to buy petroleum: the World Bank allowed agriculture sector loan funding to the auction to be used for petroleum imports. Some private sector confidence in the ability of the auction to meet its needs was sacrificed.

On April 6 an event occurred that raised questions not only for the future of the auction but for the entire adjustment program. President Kaunda fired the team of technocrats that had been negotiating economic measures since 1982 and replaced them with a new team. The key figures did not inspire donor confidence. Dr. Leonard Chivuno, the new Governor of the Bank of Zambia, was a Leningrad-trained economist. In 1980 he had ended the technocrats' reform efforts of 1978 and 1979, substituting an expansionist budget that destroyed Zambia's creditworthiness. Early in his career he had been the economic adviser to the Central Committee, the bastion of party stalwarts who traced their political power to their part in the struggle for independence. This was the group most opposed to policy changes. Later, he had worked his way up to the directorship of the National Development and Planning Commission (NCDP), responsible for economic development plans and recommendations on long-term capital investments for development. Its formal relationship with the Ministry of Finance varied over the years, but its positions and priorities were often incompatible with those of the Ministry.[16] An inflammatory speaker who was not above twisting his facts,[17] he was thus firmly identified with the socialist faction of UNIP and possessed a track record of economic decision-making incompatible with the aims of the adjustment program.

The new Minister of Finance, Basil Kabwe, was a respected ex-trade unionist with few qualifications for his new job. (Kabwe, in fact, became convinced of the adjustment program's value. By August he was contradicting President Kaunda's revisionist view of the decision to undertake the auction,[18] and, after making several speeches about the woeful state of the economy, he was abruptly fired two days before the Budget Speech in January

1987.) Luke Mwananshiku, the ex-Finance Minister, became Minister for Foreign Affairs, a junior ministry in Zambia because of the President's role as an international statesman. The President's longtime economic adviser, Dominic Mulaisho, was fired from government altogether, unusual in Zambia where sideways shuffles are frequent but expulsion is not. The appointment of Dr. Henry Meebelo to the revived Ministry of Presidential Affairs was interpreted as another sign that the socialist faction had once again eclipsed the technocrats. (He had spearheaded the effort to introduce the teaching of scientific socialism into the school curriculum in 1982, a move defeated by the churches.) The humiliating demotions of the technocratic team led observers to believe that President Kaunda had lost confidence in them personally as well as, perhaps, in the adjustment program.

The President did not repudiate the economic program. The donors, who had not been consulted about the change of economic team, were surprised and dismayed; in early 1986 the adjustment program seemed to justify confidence, although the IMF targets had not been met. The government gave no immediate evidence of any change in policy that would justify donor withdrawal.

In the event, it was several months before Chivuno began to manipulate the auction, although pressure from the party stalwarts for intervention to strengthen the kwacha had been unrelenting since the start of the auction. The probable trigger was a dip in the rate below K8.00 on July 11, 1986, after a month of gradual weakening, during which the government exhorted businessmen to restrain their bidding. Given increases in the money supply and the absence of a penalty for bidding high (at this point all bidders paid the marginal rate set for the week, not the rate they bid), a weaker kwacha was predictable. Demand increased during June but speculative bidding did not appear to dominate the market. The government did not implement the urgently necessary measure that Chivuno had promised at the beginning of May, i.e., tightening liquidity, nor did it impose emergency tariffs on luxury goods and restrict some imports under "no-foreign exchange-required" import licenses, as he also promised.[19]

The Zambian newspapers called the nine-week period of auction manipulation "Dr. Chivuno's bag of tricks." It began with Auction 41 in mid-July when the Bank of Zambia announced new documentary requirements too late for most of that week's bidders to comply. The Bank then funded the few bids that met the new requirements, in the process bringing the rate back to K5.03, the strongest rate since the beginning of the auction. Chivuno justified the move by blaming the "disorderly behavior" of the market in recent weeks.[20]

The "tricks" continued. In the second week the Bank of Zambia arbitrarily disqualified all the bids over K8.07, two thirds of the total number. In the third week the Bank of Zambia changed the auction to a "dutch auction" in which bidders paid the rate they bid; again the rule change was announced too late for most bidders to alter their bids. The BOZ funded every complete bid, selling $20.8 million. Nine million dollars was supposed to be sold each week; in fact, the average amount was closer to $6 million. During the next six weeks the BOZ continued to sell more foreign exchange than usual, as the rate fluctuated between K5 and K7.

Manipulating the auction was popular domestically; the newspapers portrayed it as Dr. Chivuno thumbing his nose at the IMF. Affluent Zambians used the opportunity to buy cheaper foreign exchange for school fees and travel allowances. The government explained to the donors that it sought to boost imports in response to South African threats to close the border. The BOZ then accused the donors of wishing to restrict the prerogative of a central bank to smooth currency market movements. Neither statement holds water: the South Africans did demonstrate their ability to halt imports, but the Bank of Zambia sold less foreign exchange than usual at the first two manipulated auctions, and the rate during the period of manipulation swung wildly between K5 and K7. Furthermore, the donors had not objected when the Bank of Zambia did act to smooth the rate during the early months of the auction.

In August the government suddenly reversed its position on the auction and the adjustment program. President Kaunda publicly withdrew his support, saying that Zambia had agreed much against its better judgment because it was in such dire need of assistance from the West. He called for a new international economic order, while accusing the IMF of blocking socialism.[21] Basil Kabwe, the Finance Minister, indirectly contradicted him, telling the parliament two days later that the auction decision had been voluntary, not IMF-imposed.[22] The Secretary of State for Defense and Security, closing a political education seminar for senior army officers, charged that the economic programs of the Party were being frustrated by the existing capitalist international economic order; the Party was not to blame for the poor economic situation.[23] Backbenchers in the parliament argued that the government should not continue to accept IMF conditions, which were making life unbearable for the common man.[24] An international conference of the Non-Aligned Movement was in progress, and some of the calls for a new international economic order were probably intended to demonstrate solidarity. Domestically, the effect was to distance the government from the auction, now unpopular with all but the donors and the business community.

However, two weeks later at the meeting of the National Council, UNIP's highest and largest policy-making forum (which includes representatives from groups outside the party, e.g., trade unionists, church leaders, and traditional chiefs), President Kaunda said that the economy was strengthening, strongly defended the auction, pointed to its role in increasing non-traditional exports, and exhorted journalists to report stories about successful new exports.[25] Some observers in Lusaka speculated that one purpose of the auction manipulation had been to remove the exchange rate as a bone of contention at the National Council meeting, leaving supporters of the adjustment program with only one controversial objective: to convince the majority to agree to the removal of maize meal and fertilizer subsidies. In any case, in presenting its platform to be ratified by the National Council, the leadership had to take a stand on national economic policy. It chose to continue to support the structural adjustment program.

The earlier mutterings against the IMF, however, re-established the dual rhetoric—the IMF's program is the solution to our problems; the IMF's rigidity is the problem—that had been voiced by President Kaunda and other politicians since the late 1970s. The Zambian population had long been conditioned to hearing the leadership switch between two incompatible views of the IMF. Since the amount of objective information about the economy was limited, and often late and inaccurate, and the government regarded criticism of its economic policies as evidence of the influence of enemies of the state, the leadership was able to play on people's lack of sophistication in economic matters.[26]

Two factors brought the "bag of tricks" period to an end: the donors' protests (an IMF team arrived during the second week of August) and the Bank of Zambia's shortage of foreign exchange. During August the BOZ had sold foreign exchange it did not have. The BOZ failed to release foreign exchange to bidders after the auction when it sold $21 million. That this was not a temporary glitch in the established procedure became quickly apparent to bidders, although the existence of an "auction pipeline" was not revealed in the press until early September, five weeks after delays in funding bids began. The delay in releasing foreign exchange grew to 12 weeks, thus removing one of the auction's primary benefits to business, that foreign exchange could be obtained quickly and thus minimize production slowdowns.

The BOZ's problems were compounded by the shortfall of funding from the donors. The BOZ and the World Bank had expected donor funding in 1986 to total about $220 million; the BOZ only received about $145 million (although the "auction pipeline" slowed some disbursement).[27] The World Bank's delay until December in signing the agreement for a new two-tranche $50 million Economic Recovery Credit, first announced on June 28, was probably a sign of its unhappiness with the state of the adjustment program. BOZ officials, however, had counted on receiving the first $25 million during autumn 1986.

The manipulation of the auction presented the donors with a problem: the Zambian government had clearly flouted the rules and the intention of the auction, and a consequence was the "auction pipeline," which represented roughly the amount that the BOZ had sold over its usual average amount (about $30 million; also, perhaps not coincidentally, about the amount of the delayed World Bank credit.) Although the IMF and the World Bank were justified in taking action after the BOZ's rate manipulation, the IMF insistence on reducing the amount to be sold and the World Bank delay in releasing the $25 million Economic Recovery credit hurt the bidders, not the government. The actions contradicted the auction's primary objectives: to maintain a realistic exchange rate that would encourage the long-term development of new exports and to increase the amount of foreign exchange available to the private sector to aid in the development of new exports.

The auction itself continued, with strict limits imposed by the IMF. The average amount of foreign exchange released weekly by the Bank of Zambia returned to its usual level but was now divided between the amount of foreign exchange sold at auction and the amount allocated each week to reduce the "auction pipeline" from previous auctions.[28] Therefore, the new amount to be sold was below what the original pool of bidders had received early in the auction. This reduction of supply, plus the enormous increase in liquidity, plus the increase in the level of economic activity in the nonmining sectors, plus the increase in uncertainty caused by the "bag of tricks" period, provided a guaranteed formula for a rapid weakening of the exchange rate. From K6.37 in mid-September it dropped to K14.92 by the end of January 1987. Copper revenues were dissappointing, an additional downward pressure on the kwacha.

The weaker kwacha was attributable to both government policies and economic factors. In addition, the auction received less foreign exchange from donors than was pledged at the

Consultative Group meeting in December 1985. That not all the funds pledged would be disbursed as promised was predictable, but there was no mechanism to make up or even bridge these shortfalls. USAID did what it could in late 1986 within the constraints of its standard operating procedures: it requested $20 million for 1987 to be disbursed in the first quarter. The World Bank encouraged the bilateral donors to increase their support for the auction at the December 1986 Consultative Group meeting. Neither action represented a timely response to the problems of August and September.

In structural adjustment agreements responsibility for implementation falls to the government, for funding to the donors. In retrospect, perhaps, the participants should have tried to write scenarios for dealing with predictable problems into the agreements. The fall in world copper prices below the forecasted level, for example, was outside either group's control but was a likely event. Ideally, some mechanism for guaranteeing a minimum level of donor funding might be devised for activities like auctions, which need a dependable source of funding to survive (and whose benefits are more apparent to donors than to domestic politicians and urban populations). In September 1986 the World Bank could either have ended the program and begun negotiating a new one or released the $25 million Economic Recovery Credit while insisting on adherence to the auction rules. One might have seemed too heavy a penalty for Zambia's non-compliance and the other too light, but the middle way chosen proved to be unworkable.

When the rate reached K14.92 in January 1987, President Kaunda suspended the auction. By now the overall adjustment program was moribund. The donors' conditions had not been met. The IMF agreement signed in February 1986 had never gotten underway because Zambia immediately fell into arrears and missed targets. The 1986 government budget deficit was, at about 30 percent of GDP, enormously above its original target. The agricultural loan conditions had produced no significant changes, as will be discussed below. There had been no progress on tariff reform, and the mining rehabilitation program was faltering. A week after the auction was suspended the BOZ cut interest rates, thereby breaking its agreement to try to maintain positive real interest rates and exacerbating the problem of excess liquidity. The government's commitment to the adjustment program had clearly spent itself.

People in Zambia also perceived that the program was not working, but for different reasons. The soaring inflation rate reduced the working class to subsistence level and sharply altered the expectations of the nonpolitical middle class. Businesses' ability to plan had been affected by the rapid devaluation and high inflation rate. The "food riots" in December had shaken confidence in Zambia's political stability. No sign seemed to point to a more prosperous future. Zambians welcomed the suspension of the auction. It was immediately apparent to people who understood the auction mechanism, however, that the new scheme announced by President Kaunda was unworkable because it proposed an auction within a band of rates, an impossibility.

The auction suspension demonstrated the BOZ's unfamiliarity with market systems. The BOZ gave holders of foreign exchange a major arbitrage opportunity. After the auction was suspended the Bank of Zambia announced that the last auction rate (K14.92) would be used for a week and then replaced with a fixed rate of K9. The government should have effected the rate change immediately; the delay allowed holders of foreign exchange to take advantage of the opportunity to buy 14.92 kwacha for a dollar rather than nine; external account holders could guarantee arbitrage profits by buying kwacha at K14.92 one week and selling them the next at K9. This was one of five arbitrage opportunities during the structural adjustment period that allowed some people to make windfall profits at the government's expense.[29] The amounts were not trivial: the total cost to the government ran into tens of millions of dollars.

Unfamiliarity with market systems was probably the basic cause of the government's mistake. One lesson is that what seems intuitively obvious to someone who has grown up in a market system is not an inference that is immediately drawn by decision makers in the midst of change. Donor representatives must put in many hours discussing with decision makers the differences between the existing system and a functioning market system in order to tease out the implications for implementing change.

The donors were not the only ones taken by surprise in January 1987 by the new auction proposal. Neither the Finance Ministry nor the BOZ had apparently been consulted about the new mechanism. In Lusaka it was immediately clear that the President had been badly advised on the unworkable new auction proposal and that a face-saving device would have to be found. The Ministry of Finance and the BOZ began looking for operational solutions. The Prime Minister even appealed to the Economics Association of Zambia members and took their replies seriously. Amid the publicity surrounding a coincidental visit by new World Bank President Barber Conable, it became clear that the Zambians wanted unconditional approval for any revisions to the auction but that the World Bank continued to insist on an active role.

The review sessions between the government and the IMF and World Bank missions in March 1987 presented the last opportunity to salvage the adjustment program. The author's impression, from interviewing participants on both sides, was that these meetings could not be characterized as a constructive joint effort to solve obvious and serious problems. When "policy dialogue" breaks down, the Zambia case suggests that policy drift and unsatisfactory implementation continue. In spite of the many problems in the economy, the only public result of the meetings was a resumption of the auction in a form that solved none of its problems.

The new auction system, announced on March 18, 1987, consisted of the old auction, with slightly more restrictive conditions for bidders, and a new rate-setting mechanism for nonauction government transactions. Nine million dollars was to be auctioned each week. The main Zambian business association immediately raised the obvious question: the auction had been suspended for nine weeks, so how was the BOZ planning to deal with pent-up demand while maintaining an acceptable rate? The BOZ (and the donors) had no answer, and the rate set at the first auction was K15, virtually the same rate that had triggered the suspension.

By April 24 the rate had fallen to K21.01. Three days later the President said that the auction had failed and the country must prepare for a break with the IMF. On May 1, during his speech announcing the break, President Kaunda set a fixed rate for the kwacha of K8 and appointed a board to allocate foreign exchange. The protests of exporters that they could not be profitable at K8 went unheard.

The radical change in relative prices caused by the auction had lasted about 18 months and had shown signs of producing the intended structural shift to higher exports. Existing manufacturing facilities, which had been operating at a fraction of capacity before the auction, increased capacity utilization significantly; non-traditional (non-mineral) exports at least doubled in 1986. However, some companies put expansion plans on hold after the auction manipulation in mid-1986, and the overall structure of profitable investment opportunities was unchanged. Importing for resale and building houses to rent for foreign exchange remained less risky than long-term investments in new industries. By the time the president ended the program in May 1987, the Zambian industrial and commercial agricultural sectors had undergone some rehabilitation and were more export oriented than in 1985, but they had made no great investment in increased productive capacity.

Agricultural Reform

The foreign exchange auction (and the associated trade-related measures) and agricultural reform, the two packages of policy reforms that demanded radical change from the government (as mining rehabilitation and parastatal commercialization did not), followed different implementation paths. The auction and most of its related measures were implemented by the government and subsequently neutralized by other government actions, principally by printing money, manipulating the rate, failing to change the tariff structure, and, finally, simply returning to an overvalued exchange rate. In the agriculture sector radical change was successfully resisted (or hopelessly muddled, depending on one's belief about government actors' intentions) through nominal compliance with the agreed conditions. The World Bank based its release of funds in the first half of 1986 on the government's formal compliance, although Bank officials recognized that fundamental change was not taking place.[30] The Bank held back from pushing hard for effective reform measures.

Aid donors had been urging the government for years to change its agriculture policies. Ever since independence the government had acknowledged the need for some changes, particularly the need to put more money into the agriculture sector in order to reverse the drift of people into the cities. However, the level of funding necessary to change the rural-urban terms of trade was never forthcoming. The 1985 package of reforms concentrated on pricing and marketing. It did not try to deal with other obstacles to agricultural development, including physical infrastructure constraints (which were partly addressed by some existing aid projects), the deficiencies of available credit schemes, and the land tenure system's lack of incentives for capital improvements. Institutional improvement in the Ministry of Agriculture and the agricultural extension services was funded through other donor projects. The conditional loans focused on three policy issues: (1) government subsidies for maize meal and fertilizer, (2) the government monopoly of maize marketing, and (3) the government's producer price setting process. In all three areas the government was expected to implement market solutions.

Market solutions, however, were antithetical to a system rooted in the colonial era and extensively ramified since independence. The consumer switch from traditional staple grains to subsidized maize had started in the 1920s, and even before independence urban dwellers regarded subsidized maize meal as a right. The UNIP government in 1970 instituted a pan-seasonal, pan-territorial maize producer price (a single price for the entire country, for the entire year) as an egalitarian measure; the effect was that growers of traditional grains in remote areas switched to maize. Farmers had no incentive to store maize or to trade it locally and, compared to farmers in Malawi, sold a much larger proportion of the maize crop to the maize marketing board,[31] which had a statutory obligation to buy all the maize offered to it.

At almost every harvest there was a crisis as the marketing board and the cooperatives failed to deal efficiently with the floods of maize.[32] Maize had to be moved from remote locations to central depots to mills and back out to remote locations as maize meal—all this in sparsely settled rural areas with poor roads and an inadequate national transport fleet using heavily subsidized imported fuel. Zambian efforts to improve the system had consisted largely of transferring responsibilities back and forth between the maize marketing board (NAMBoard) and the provincial cooperative unions (PCUs, the apex cooperatives in each province). The government also encouraged aid donors to build more and more maize storage. As the events of 1986 showed, however, in spite of the chronic problems, there was still substantial political and popular support for continuing to try to fix the existing system.

Market mechanisms would have shifted risks and costs away from the government to consumers and farmers. If the government no longer guaranteed to purchase maize at a single price, farmers in remote areas would find themselves unable to compete with centrally located farmers, and all farmers would be forced to decide between selling at harvest time or investing in storage facilities and selling later. The donors hoped that local markets would arise, but in the meantime some dislocation seemed inevitable. Zambian politicians feared their constituents' reactions to the reversal of policies that had made pan-territorial prices a symbol of even-handed treatment of all regions. They also feared that private traders would exploit farmers.

The existing system showed all the preferences for procedures that gave opportunities for rents and patronage (over automatic procedures) that Bates described in *Markets and States in Tropical Africa*.[33] Market mechanisms would reduce these opportunities. In particular, if prices for maize, other crops, maize meal, and fertilizer were all to rise to border price levels, rents from smuggling would be eliminated. These were considerable: more than one third of maize meal production and fertilizer stocks were smuggled abroad in 1986.[34] People at all levels of society, including members of the political elite, profited from the widespread smuggling.

The subsidy on maize meal was not only long-standing policy but had come to represent symbolically the relationship between the government and the urban dwellers. By 1985 cheap maize meal was about the only welfare measure that the government was providing. Other services that contributed to welfare had crumbled. Although great strides in health care and education had been made in the 1960s and 1970s, government services had deteriorated badly by the mid-1980s, although they continued to be free. Government budget cutbacks in recurrent departmental charges meant ministries had funds for few textbooks and very limited medical supplies and drugs. In education and health, therefore, the government had failed to live up to its promises. The government had raised maize meal prices a number of times; the population was well aware of the government's power to increase maize meal prices. In the face of the galloping inflation, such diverse groups as the army and the trade unions made their opposition to the removal of maize meal subsidies known. Removal of the subsidies was politically risky: it was the government's tacit admission of failure to keep its populist promises.

Removal of subsidies, however unpalatable to Zambians, was a condition of donor funding. To reduce the impact, under the terms of its agreement with the World Bank the government agreed to phase out maize meal and fertilizer subsidies over three years. The total subsidy was to be cut by one-third each year; the government could apportion the cuts between maize meal and fertilizer subsidies as it saw fit. Domestic inflation, the effect of devaluation on the kwacha price of imported fertilizer, the goal of setting producer prices to cover costs and approximate border prices, and a bumper harvest all combined during 1986, however, to send subsidy costs skyrocketing.

The government was in compliance with its agricultural policy reform agreements in April 1986 when President Kaunda changed economic teams; however, the measures taken up to that point had been fairly easy ones: raising maize meal prices by 50 percent in September 1985 (an action which met in full the one-third subsidy reduction for 1985) and announcing in January 1986 that maize meal marketing would be open to the private sector. The government had run into resistance in parliament when it raised fertilizer prices in February 1986, but had overruled the opposition; the price increase affected fertilizer for the growing season that would start in late 1986 and did not immediately affect farmers. Although it is tempting to blame the new "socialist" economic team for failure to comply with the loan conditions, the "technocratic" economic team had already made subsidy reduction more difficult by the way in which it had apportioned price increases between maize meal and fertilizer.

The maize pricing structure inherited by the "socialist" team in April 1986 was nonsensical. There were three components to the total cost to the government of a 90 kilogram bag of maize: (1) the producer price (the price paid to the farmer); (2) the handling and transportation costs of NAMBoard or the PCU for moving the maize from the local depot to safe storage and then to the mill, and (3) the difference between the producer price and the into-mill price (which allowed the mill to sell maize meal to the consumer at the official subsidized price). In 1986 the cost to the government of each component increased dramatically. The producer price paid to the farmer for the 1986 harvest was K55 for a 90 kilogram bag of maize; this was an attractive price, set close to the border price to conform to the principle that farmers should receive the full regional/world price. The same bag of maize, however, sold to the millers for K35, a K20 subsidy which allowed the millers to sell maize meal at the rates set in September 1985. The subsidy to cover NAMBoard and the PCU's handling and transportation costs was estimated early in 1986 at K26 per bag.[35] A bag of maize thus cost the government K55 (to the farmer), plus K26 (to NAMBoard or a PCU), or a total of K81 per bag. The millers paid K35 per bag, so the government reimbursed NAMBoard or a PCU for selling to the mills for K20 less than they had paid the farmer, for a total subsidy of K46 per bag. The total subsidy per bag had increased from K14 per bag (equivalent to about half the producer price) in 1985 to K46 per bag (equivalent to 84 percent of the producer price) in 1986, in spite of the 1985 maize meal price increase. Logically, the government should have raised maize meal prices again to reduce the subsidy. However, the donors had no leverage to persuade the government to increase maize meal prices since the February increase in fertilizer prices had technically satisfied the loan conditions. To compound the problems, 1986 produced a record maize harvest, exceeding the capacity of the government's logistical capability as well as sending the subsidy bill sky-high. Farmers went unpaid, maize was spoiled by rain, and the donors were furious about the effects of the subsidy on the government budget deficit.

When the new team took over in April 1986, the pricing structure was set to continue to be nonsensical. Raising the price of fertilizer in February 1986 for the 1986-87 season implied that the maize producer price would also have to be raised enough to cover the increase, since most of the fertilizer that is not smuggled out is used on the maize crop. Fertilizer or its components are mostly imported, so a weaker kwacha would necessitate further fertilizer price increases, higher maize producer prices, etc. All of these forces implied that the government faced four alternatives: (1) scrapping its new producer pricing policy of using border prices as a reference; (2) increasing maize meal prices tremendously; (3) increasing subsidies, or (4) moving precipitously to an essentially free market in maize, maize meal and fertilizer. Each of these alternatives was unacceptable to one party: the donors opposed maize meal subsidies and lower prices to farmers; the government refused to move to market mechanisms and prices.

The old team of "technocrats" thus left pricing in a pickle for the new team. The World Bank was aware of the problem and had asked Landell-Mills, a British-Zambian consulting firm hired to study maize marketing, to produce an interim report outlining the government's options for emergency measures to reduce the subsidies. This was ready in April. The recommendation with the largest saving represented the most radical change: instead of subsidizing all maize, including that used for stockfeed and maize beer, the government should charge millers an economic price for maize but reimburse them for selling maize meal at a statutory subsidized price.[36] This recommendation, in other words, moved the point of subsidy from the PCU's and NAMBoard to the millers. At that time parastatal mills produced about 70 percent of maize meal; the balance came from private millers, mostly in the Copperbelt and Lusaka. The report included detailed proposals on how to implement the recommendation.

The January announcement that the private sector could participate in maize marketing proved irrelevant. By May it was clear that there would be no private sector participation in maize marketing for the season. For a start, there was the price differential: no private operator would buy maize at K55 per bag and sell it for K35. In addition, the government cancelled the invitations of the Commercial Farmers Bureau and other private sector actors to the annual high-level workshop to direct logistics for the coming marketing season. The workshop decided not to define immediately the necessary qualifications to become a licensed private sector trader, although workshop participants included the chairman of the Central Committee subcommittee on rural development, the Minister of Agriculture, and the Minister of Cooperatives. Instead the task was handed off to the national contingency committee, which gazetted an onerous set of conditions in mid-October, almost at the end of the marketing season. Private sector traders, therefore, could not participate legally, even if they had wanted to.

This incident provides a lesson for donors. Convoluted decision processes are not unusual in Zambia. For a start, the Zambian constitution gives the Party the responsibility for making policy and the Government the responsibility for implementing it, while allowing the president complete freedom of action. In consequence, many policy decisions promised to donors by government officials must wind their way through elaborate and slow approval processes. Usually the process is merely frustratingly slow; in this case it appears to have been a deliberate stalling tactic. The loan conditions for agricultural reform did not ask the government to specify and adhere to an internal approval process and timetable; perhaps they should have.

Convoluted approval processes also slowed the next maize meal price increase. Donors were told that the Central Committee (of the Party) had reluctantly approved further increases in maize meal prices in May 1986. No action followed. Ministry officials (part of the Government, and the only officials with whom donors dealt) eventually explained that approval from the National Council (of the Party), which met during the last week of August, would be necessary before prices could be raised. The proceedings of the National Council were not covered in the press, but the meeting was extended for two days to try to reach consensus on the removal of maize and fertilizer subsidies. Donors were again assured that maize meal price increases would soon follow.[37]

A second round of fertilizer price increases had already been announced amid much confusion. In late July NAMBoard announced that it was requesting a price increase because the kwacha cost of imported fertilizer had increased significantly. This was an arbitrage opportunity, and farmers rushed to buy at the current prices—some commercial farmers bought three years' supply.[38] On August 8 the Minister of Agriculture announced a 66 percent increase but gave no effective date. NAMBoard continued to sell at the old prices. From August 15 to September 11 sales were suspended while the leadership and the National Council wrangled. The new prices were then confirmed and NAMBoard resumed sales.

NAMBoard had not yet moved fertilizer out to rural depots, and most small farmers had not purchased fertilizer for the season. Time was running short because basal fertilizer should be applied before planting, which takes place in November and December. At this point two new difficulties emerged. First, the PCU's refused to sell fertilizer. They had been saying since July that they could not sell fertilizer for the same price at which they had bought it and simultaneously carry out the government directive to run their operations profitably. In mid-November the Minister of Agriculture solved the impasse by fiat: he ordered the PCU's to allow NAMBoard to use their depots to sell fertilizer. This is another example of the sort of problem that crops up during a transition from central planning to market mechanisms, particularly when the implementors have not absorbed the implications of the transition.

There was a second problem with fertilizer for the rapidly approaching new growing season: with inefficient inventory control, smuggling, and the opportunistic buying before the price increases, NAMBoard had nearly run out of fertilizer. Frantic appeals to donors and fruitless buying trips to Zimbabwe did not allow NAMBoard and the government to escape severe domestic criticism for mismanagement likely to reduce maize yields significantly the following year. Yet again the entrenched system had failed to work properly.

NAMBoard and the government were also receiving heavy criticism for their inefficiency in purchasing the record maize crop and getting it into storage. On top of the usual logistical problems, exacerbated by the huge harvest, a week of heavy, early rain in late September focused national attention on how slowly the crop collection effort was moving. Transporters were told to concentrate on moving maize into storage.

In late October the Indeni petroleum refinery shut down for a month of routine maintenance; this caused a diesel fuel shortage that lasted from early November through the following January. The priority on moving maize left farmers short of diesel fuel for plowing; it also disrupted the flow of maize from storage to mills and, as maize meal, into shops. This became a major factor in the events that precipitated the "food riots" of December 1986.

The December "Food Riots"

When Zambians rioted in December 1986 (the "food riots"), they were not simply responding to IMF-imposed pricing policy. The riots resulted from a number of factors.

- Diesel fuel had run short to the point of seriously disrupting flows of maize and maize meal.

- The government miscalculated the time it would take to reach a new subsidy agreement with the private millers.

- The government and the donors had not verified their assumption that most urban dwellers ate the coarser grade of subsidized maize meal (called roller meal). This led them to miscalculate that urban dwellers would not be greatly affected when the government retained the subsidy on roller meal while eliminating it on the more refined breakfast meal. In fact, only the poorest of the poor ate roller meal, since the price difference was small and the difference in quality often large.[39]

- A short-lived attempt to raise prices in September had indicated what steps needed to be taken for the successful implementation of a new system; the government ignored the lessons.

- Finally, meetings in the Copperbelt in October between top party officials and party rank and file had indicated clearly that the situation in the Copperbelt cities with regard to the removal of the breakfast meal subsidy was explosive.

First, the dress rehearsal in September: on September 11 the Minister of Agriculture announced that the government was withdrawing subsidies on all uses of maize except roller meal. He did not give new prices for maize products, but on the following day NAMBoard was instructed to sell maize to the mills for K55 (up from K35). Nothing happened for a few days. Then the state-owned mills in Choma and Ndola stopped selling maize meal to retailers, and panic buying emptied the stores. Both private and state-owned mills in Lusaka continued to sell maize meal at the old prices although they were paying NAMBoard K55. On September 17 the Minister of State for Commerce and Industry announced that new prices were being considered and would be made public in a few days. On September 18 the general manager of NAMBoard said that maize was again being sold to the mills for K35 on instructions from the Cabinet Office. After a few more days of confusion everyone went back to the old prices. The donors played no advisory role; apparently a Ministry of Agriculture and Cabinet decision had been successfully overturned from within the Zambian decision-making structure.

One lesson from the September experience should have been that raising the into-mill price (the price paid by the millers) was the last step in the process, to be taken only after (1) wholesale prices for unsubsidized maize products had been decontrolled, (2) millers were satisfied that a new mechanism for reimbursing their sales of subsidized roller meal would work, and (3) when larger than normal stocks of maize meal were available to the public.

On November 6 the Finance Minister announced that all maize prices except roller meal were officially decontrolled. The World Bank, in two reports written in November, treated this as meaning that maize subsidies had successfully been removed.[40] However, NAMBoard did not change the K35 into-mill price. When the private Copperbelt millers and retailers raised their prices in anticipation of higher into-mill prices they were greeted with outrage; state-owned mills and stores were ordered to maintain the old prices, and the private sector quickly reversed its increases.[41] No prices changed in spite of the announcement of price decontrol.

Although since April the government had the Landell-Mills plan for subsidizing roller meal by reimbursing the millers, it did not approach the millers until November 7, the day after announcing the decontrol of all other maize prices. On November 18 the Permanent Secretary in the Ministry of Finance announced that the ministry and the private millers had agreed on a mechanism and it had been forwarded to the Prime Minister for approval. On December 4 the government raised the into-mill price and rioting began. On December 9—the last day of the "food riots" on the Copperbelt—the Ministry of Finance sent a memo to the millers explaining the subsidy mechanism and enclosing application forms for registration.[42] The government therefore raised the into-mill price at least two weeks before the new subsidy mechanism could have started to operate.

Shortages of maize meal contributed to the "food riots." Various accounts of the riots have taken at face value the government's assertion that the millers stopped production of roller meal, the coarser, subsidized grade, in order to force people to buy the more profitable breakfast meal.[43] In fact, the lack of a functioning subsidy mechanism, plus the diesel fuel shortage, were the reasons both private and state-owned mills stopped producing. The government had dealt with the concern that no roller meal would be available by ordering all the mills on November 13 to produce a product mix of 60 percent roller meal, 40 percent breakfast meal. However, maize was not moving through the distribution system, because transport had been diverted to collect the maize harvest. Neither mills nor retail outlets had storage space for more than a few days' supply of maize meal, so disruptions in distribution were quickly felt by consumers.

On December 4 the general manager of state-owned Choma Mill in Southern Province (the most modern and efficiently run mill in Zambia) said that 21,000 bags of maize meal were piled up at the mill. NIEC Stores, a state-owned retail chain operating mainly in Lusaka and Southern Province, reported that it had not had deliveries from mills since the last week of November. On the Copperbelt, millers in Mufulira and Chingola reported on December 2 that production was down because maize was in short supply, and a NAMBoard spokesman confirmed that the Chambishi depot was empty and millers were being sent to Kitwe, 20 kilometers further away. The town of Mufulira reported severe shortages of both roller and breakfast meal. When the government raised the into-mill price on December 4, therefore, not even normal supplies of maize meal were available.

Unrest on the Copperbelt began immediately and lasted for five days, during which at least 15 people were killed, many shops were looted, and party offices and vehicles were vandalized. These riots represented the most severe unrest in Zambia since independence. The newspapers reported that the Copperbelt mills were producing 10,000 bags of maize meal per day, but that retailers, who had shut up shop, were unwilling to buy it for fear of looters. Although the President reversed the breakfast meal price increase and nationalized the private mills on December 11, the into-mill price increase was not reversed until December 16. During the riots soldiers prevented some of the Copperbelt private mills from operating; after the riots some millers curtailed production because the into-mill price was still high, and some because they had been nationalized. There is no contemporary evidence from the newspapers that private millers cut production in order to force sales of breakfast meal. There was no breakfast meal available. The problems with the distribution system that were causing maize meal shortages in the cities in late November and early December should have been grounds for the government's postponing the price increases.

The predominance of private millers on the Copperbelt and their immunity to government jawboning to produce at a loss were part of the reason why there was far more violence in the Copperbelt cities than anywhere else. (Violence in Lusaka consisted of one morning of demonstrations that were easily suppressed by the police and paramilitary troops, and the most severe damage was the theft of several thousand chickens from local large farms.) However, historically the Copperbelt cities have been the most politically militant, and the dominant Bemba population had reason to resent its lack of power at the top levels of UNIP, the result of losing internal political struggles in the first decade after independence. The cluster of Copperbelt cities is the home of the Miners Union of Zambia, the country's most powerful labor union, and the headquarters of the Zambian Conference of Trade Unions (ZCTU), the Kaunda government's most vocal critic.

In October 1986 senior party and government figures toured all the provinces to explain that the government could no longer afford to subsidize breakfast meal. During a five day visit to the Copperbelt, Reuben Kamanga, a top figure in the liberation struggle, Zambia's first Vice President and in 1986 a senior Eastern Province politician and chairman of the Central Committee's subcommittee for rural development, experienced firsthand the strength of local UNIP officials' opposition to increases in breakfast meal prices. In Ndola he met with behavior almost unheard of in Zambia under Kaunda: half the audience of lower-level party officials and market women walked out when he explained the need to raise breakfast meal prices, in spite of forcible attempts by party militants to bar the doors. Questions from the floor were hostile and included a warning that party officials would resign if breakfast meal prices were raised. Ten days later Frederick Chiluba, the newly reelected head of the ZCTU, called for an end to the auction and for a continuation of subsidies in the interest of political stability. Government leaders did not fail to sense the depth of opposition, and the ZCCM, the mining parastatal, attempted to make subsidy removal more palatable by awarding miners a special 10 percent cost-of-living wage increase on November 24.

The donors were again on the sidelines. Donor representatives in Lusaka had not questioned the government's erroneous assertion that most people would willingly switch to roller meal, the price of which would be unchanged when the breakfast meal subsidy was removed.[44] With the Consultative Group meeting coming up on December 17 the government was indirectly under donor pressure to show some progress in the agricultural sector and to reduce the enormous budget deficit (approximately 30 percent of GDP). The government, which had been promising donors since May that it would increase maize meal prices, had successfully implemented maize meal price increases of up to 50 percent five times between 1981 and 1985. However, donor representatives denied putting direct pressure on the government in November and December. In mid-1986 the World Bank had extended the schedule for subsidy removal by one crop year. With specific regard to maize meal prices, the Landell-Mills report had said that it was not financially imperative to remove the breakfast meal subsidy in one step.[45]

The government's timing and the magnitude of the price increase—breakfast meal prices doubled—made the action likely to fail, and the complete reversion to the original price sent a signal that violent protest had paid off. Newspaper editorials blamed government mismanagement for the riots. President Kaunda said sorrowfully that money for maize subsidies meant less money for healthcare and education.[46] The "food riots" did, however, convince the Consultative Group meeting to soften its terms. The reversal of the price increase was treated as a temporary deviation. The level of pledges stayed high. Intentionally or not, and certainly at a cost, the government had succeeded one more time in semisatisfying both its domestic and external constituencies. No real progress had been made toward agricultural sector reform by the time of the Consultative Group meeting. No changes were even attempted between then and May 1,1987, when President Kaunda repudiated the IMF and the structural adjustment program.

Conclusion

The government claimed that it was pressured by the donors to raise maize meal prices. The donor representatives I interviewed denied the charge. However, "policy dialogue" in Zambia in 1986 was highly fragmented. Apart from the Consultative Group (CG) meetings, there was no working forum for taking joint decisions. The CG meetings were focused on future funding, not the day-to-day problems of implementation. In 1985 provision was made for a Joint Monitoring Commission made up of government officials and donor representatives in Lusaka to oversee implementation and provide an ongoing forum for "policy dialogue." In 1987 donor representatives complained that Zambian officials did not turn up for meetings and that no agreement had been reached on what the JMC's powers should be.[47]

The World Bank and IMF made their decisions in Washington. Washington-based officials communicated regularly with a small group of government officials, mostly in the Ministry of Finance, and visited Zambia on mission. These World Bank and IMF officials, by being at a distance, missed the debates and political maneuvering and local obstacles that impeded implementation. Lusaka-based bilateral representatives had no coherent means to influence implementation. The bilateral donor representatives in Lusaka agreed that most of their talks with government officials on policy matters were initiated by the Zambians. None of the donors had access to the Zambian informal decision making process, however good their contacts in the ministries. The supra-ministerial decisions in 1986 and 1987 came as much of a surprise to them as to most of the rest of the country. On the whole, the dynamic between the government and the donors mirrored the government's relations with domestic groups: the leadership acted and everyone else reacted.

Representatives of bilateral donors in Lusaka had varying degrees of freedom to make decisions in response to local conditions and needs. Standard operating procedures dictated slow and rigid allocations of funds. The USAID mission had the most autonomy, and since, unlike any other contributor to the auction, it had retained control of the counterpart funds generated from the dollars donated to the auction, it had both funds for unplanned uses and the authority to make immediate decisions based on the mission's perception of how these funds could best be used. If the other donors had also retained control of their counterpart funds and had cooperated with each other, their leverage over the government's implementation of the program could have increased significantly.

USAID was the only bilateral agency to set up an independent conditional loan. Its conditions paralleled those of the World Bank's agriculture sector loan with one important difference: its tranches were to be released when the government had successfully completed the conditions. USAID paid out the first tranche in late 1985 after the government raised maize meal prices; the government never completed the conditions for the release of the second tranche. This method reduced the risk to the lender. Payment on performance also avoided the possibility of politicization that plagued the review meetings between the government and the World Bank and the IMF. The absence of bargaining over whether or not conditions had been fulfilled seemed to exempt USAID from the government's invective against the World Bank and IMF when the president broke with the program in May 1987.

The Zambian perception that the donors were pushing for change was, of course, correct. Events, however, proved the donors to be shackled by the conventions of relations between sovereign governments, shut out of Zambian political decision processes, and unable to cooperate coherently among themselves. The Consultative Group mechanism failed to deliver the pledged amount of funding. Usable donor leverage over the implementation process was negligible.

The design of the program was flawed not so much by what it contained as by its omission of safeguards. The lenders did not protect themselves against the government's possible non-compliance. They did not insist on an advisory role. They did not have a strategy to increase the political palatability of the program to the Zambian politicians and the Zambian public. The few technocrats who supported the program were left high and dry by the public's perception of the program's apparent effects on prices. In 1985 not half a dozen Zambians understood and wholeheartedly supported the adjustment program. The early beneficiaries of the program were primarily the expatriate and foreign-owned businesses that benefitted from the auction. When the inflation rate began to worsen, the program's critics had no difficulty in persuading the rest of the population that, although something needed to be done, this foreign-imposed program was making things worse—except for foreigners.

There were three sources of resistance to change in Zambia.

- Those who were benefiting from illegal activities were rational to prefer the status quo, and some of the beneficiaries were politically powerful.

- The government, the urban population, the trade unions and other groups had for 20-odd years agreed on the state's role in development: it was to act as parent, director, and universal provider for the people, particularly for the urban half of the population.

- Government institutions in those same 20-odd years had become so politicized and so burdened with a tangle of interagency debt and unclear lines of authority that they barely functioned.

All three factors combined to produce embedded economic distortions. The structural adjustment program did not address these problems, which, indeed, can only be addressed by Zambian political leaders. Action to curb corruption, to reach national consensus on a new role for the government, and to untangle interagency debts and overlapping responsibilities would have been signs that the leadership was serious about change. Such problem-solving actions would have demonstrated unequivocally that leaders were neither playing games to extract money from donors nor basking in the illusion that the structural adjustment program would be a quick and easy fix for Zambia's economic problems. Structural adjustment is as much a political as an economic process; the Zambia case showed that funding semicompliance with economic loan conditions in the absence of both public awareness programs and political problem-solving actions consistent with the economic objectives was a waste of money.

However, many of Zambia's problems are common to other centrally planned economies attempting the shift to market mechanisms and to other countries in Africa that impose no checks on their rulers' ability to use state resources for political ends. The number of changes necessary to encourage sustained productivity increases is daunting, but if progress is not being made on governance issues, legal and budgetary consistency, and public awareness, as well as in economic policies, a sustainable economic system seems unlikely to emerge. The Zambian case shows us emphatically that implementation is a messy process. As a result, it may be hard to identify the moment when a program should be suspended.

The Zambian case also shows the need to craft the donor-recipient policy-based lending terms carefully. A relationship that does not give donors a voice when decisions are being made rewards arbitrary behavior by the government. Donor failure to develop contingency plans or to deliver pledged funding provides the government with easy excuses for failure to carry out agreements. The behavior of a leadership that has been in power for many years is not a black box; rigorous study of the government's past decisions is likely to turn up useful regularities. Policy-based lending brings together several complex institutional structures (the recipient country and each major lender/grantor), each with its own sets of incentives, imperatives and rules. In order to achieve any successful implementation at all, these institutions must, I believe, begin to use an incremental, problem-solving approach (with incremental amounts of funding) rather than the grand designs of early structural adjustment programs.

Notes

1. For a detailed analysis of the survival strategy supported by evidence from primary and secondary published sources see Eugenia West, *The Politics of Hope: Zambia's Structural Adjustment Program 1985-1987*, Ph.D. dissertation, Yale University, December, 1989.

2. Ibid, pp. 134-136.

3. For a detailed discussion of the "contract" between state and people after independence see West, op. cit. pp. 98-102. Quick shows in detail in his dissertation how one government agency's functioning changed after independence; he draws some mid-level conclusions in a later article: Stephen A. Quick, *Bureaucracy and Rural Socialism*, Ph.D. dissertation, Stanford University, 1975; "The Paradox of Popularity:"Ideological" Program in Zambia," in Merilee S. Grindle, ed., *Politics and Policy Implementation in the Third World*, Princeton: Princeton University Press, 1980.

4. Stephan Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in Jeffrey Sachs, ed., *Debt and Economic Performance: Selected Issues*; Chicago: University of Chicago Press, 1988.

5. Notable contributions to the literature on Zambia's implementation problems include: Robert H. Bates, *Rural Responses to Industrialization: A Study of Village Zambia*, New Haven: Yale University Press, 1976 and *Markets and States in Tropical Africa*, Berkeley: University of California Press, 1981; Michael Bratton, *The Local Politics of Rural Development: Peasant and Party State in Zambia*, Hanover: University of New England Press, 1980; Andrew A. Beveridge and Anthony R. Oberschall, *African Businessmen and Development in Zambia*, Princeton: Princeton University Press, 1979; Kenneth Good, "Systematic Agricultural Mismanagement: The 1985 "Bumper" Harvest in Zambia," *Journal of Modern African Studies 25:3* (1986):257-284, "The Reproduction of Weakness in the State and Agriculture: The Zambian Experience," *African Affairs* 85 (April 1986): 239-265, "Zambia: Back into the Future," *Third World Quarterly 10* (January 1988): 37-53; Carolyn Baylies, *The State and Class Formation in Zambia*, Ph.D. dissertation, University of Wisconsin, 1978.

6. Ravi Gulhati, "Impasse in Zambia: The Economics and Politics of Reform." EDI Development Policy Case Series: Analytical Case Study No. 2. Washington. DC: World Bank, 1989, pp. 48-44.

7. Jaycox et al., "The Nature of the Debt Problem in Eastern and Southern Africa," in Carol Lancaster and John Williamson, eds., *African Debt and Financing*, Special Report 5, Washington DC: Institute for International Economics, May 1986, p.60.

8. Prices in 1982 dollars from World Bank *Commodity Trade and Price Trends*, 1987-88 edition, p.84; Production figures from several sources (see West, 1989, p.51).

9. Jaycox et al., op. cit.

10. One of the classic works on implementation difficulties is based on an American case: Jeffrey L. Pressman and Aaron Wildavsky, *Implementation: How Great Expectations in Washington Are Dashed in Oakland*, Berkeley: University of California Press, 1973.

11. Murray Sanderson, "Zambia's Foreign Exchange Auction: the Liberal Prescription for Economic Recovery." Paper presented at the Economics Association of Zambia first annual conference, Lusaka, December 12-13, 1986. Photocopy. Further indirect evidence is the assumed exchange rate (K6.50) in the 1986/1987 NCDP *Economic Review and Annual Plan*, which appears to be an average of the Zambian forecast (4.50) and the IMF forecast (8.50) for 1986.

12. Sanderson (1986), op. cit., p.4; West (1989), op. cit., pp. 263-268.

13. Interview by author with IMF official.

14. Gulhati, op. cit., pp.50-51.

15. E.C. Kaunga, "Auctioning of Foreign Exchange and How It Will Affect Industry," paper for workshop on the economic problems facing Zambia sponsored by the Economics Department , UNZA, November 26, 1985, pp.13.

16. Gulhati, op.cit., p. 15.

17. The author heard him speak on several occasions. In July 1987 Chivuno, then Governor of the Bank of Zambia, asserted in a speech that one hundred companies had received 90 percent of the foreign exchange allocated through the auction, and that 99 of them were foreign-owned. I asked one of the Bank of Zambia staff present whether the one Zambian-owned firm was Zimco, and he replied that it was; Zimco is the holding company for almost all Zambian parastatals, and it dominates the mining, industrial, financial and service sectors.

18. Zambia Daily Mail, 8/20/86, p.1.

19. Zambia Daily Mail, 5/3/86, p.1.

20. Times of Zambia, 7/14/86, p.1.

21. Times of Zambia, 8/18/86, p.1; Zambia Daily Mail 8/18/86, p.1.

22. Zambia Daily Mail 8/20/86, p.1.

23. Zambia Daily Mail 8/23/86, p.1.

24. Times of Zambia 8/23/86, p.4.

25. Times of Zambia 8/27/86, p.1; Zambia Daily Mail 8/27/86, p.1.

26. West (1989), op.cit., pp. 135-138.

27. Ibid., pp. 311-324.

28. USAID ZAAPS PAAD, November 1986, p.22.

29. The five occasions were: the suspensions of the auction in January and April 1987: the increases in fertilizer prices in February and July 1986, and the pricing anomaly that paid farmers to sell all their maize and buy processed maize meal. This last arbitrage opportunity was noted in the April 1986 Landell-Mills Interim Report, which urged the government to change the prices; the advice was not heeded, and the proportion of marketed maize to the total maize crop increased significantly, thereby also increasing the government's subsidy bill substantially.

30. The author interviewed a number of World Bank officials in May 1986 in Washington DC; their attitude was that for the current crop year no fundamental change had occurred, and they would try again next year.

31. Jonathan Kydd, "Changes in Zambian Agricultural Policy since 1983: Problems of Liberalization and Agrarianization," *Development Policy Review* 4 (1986): 233-259.

32. This failure of maize marketing agencies has been described by a number of people, including Bates,1976 and 1981, op. cit.; Charles Elliott, "Equity and Growth: An Unresolved Conflict in Zambian Rural Development Policy," in Dharam Ghai and Samir Radwan, eds., *Agrarian Policies and Rural Poverty in Africa*, Geneva: ILO, 1983; Kydd, op.cit., and, most graphically, by Good, 1986a, 1986b, 1988, op. cit. See also Adrain P. Wood et. al., *The Dynamics of Agricultural Policy and reform in Zambia*, Ames: Iowa State University Press, 1990.

33. Bates, 1981, op. cit.

34. NCDP, Economic Report 1987, Lusaka: Government Printer, 1988; News from Zambia 473 (2/17/88).

35. Landell-Mills Associates Ltd., "Agricultural Marketing and Input Distribution Study: Interim Report," Lusaka, April, 1986. Photocopy.

36. Ibid.

37. Author interviews with donor officials in Lusaka in July and August, 1986.

38. Author interviews with commercial farmers from the Lusaka area in August and September 1986.

39. Author's interviews with about forty house servants, drivers and security guards in Lusaka, about half before the riots.

40. World Bank, Zambia: *Economic Memorandum: Issues and Options for Economic Development*, Washington DC, November 19, 1986; the country officer's report, dated December 1, 1986, from World Bank, "Chairman's Report of the Proceedings of the

Meeting of the Consultative Group for Zambia held in Paris, December 16-17, 1986." Washington DC: May 14,1987. Photocopy.

41. Unless otherwise noted, all of the evidence presented here on the food riots comes from the two main newspapers: the Times of Zambia and the Zambia Daily Mail. The author confirmed some of the evidence by interviewing eye- witnesses to the riots or relevant government officials. The exact day-by-day citations can be found in West (1989), op. cit.

42. Ministry of Finance document MF/3/37/9 dated December 9, 1986 and titled "Payment of Subsidy on Sales of Roller Meal—Notice to Millers."

43. Gulhati, op. cit.; Jennifer Seymour Whitaker, *How Can Africa Survive?*, New York: Council on Foreign Relations, 1988; Thomas M. Callaghy in Joan Nelson, ed., *Fragile Coalitions* FIX

44. Author interviews with representatives of five bilateral aid agencies in Lusaka including USAID.

45. Landell-Mills Associates Ltd., "Agricultural Marketing and Input Distribution Study: Final Report," Lusaka: July 1986: 19.

46. Speech by His Excellency the President Dr. K. D. Kaunda, President of the Republic of Zambia, at the official opening of the first annual conference of the Economics Association of Zambia, 12 December 1986, Pamodzi Hotel, Lusaka.," p.5. Photocopy.

47. Author interviews with donor representatives.

Part III.

Lessons and Conclusions

Chapter 9
Economic Reform, Governance, and Democratization in Africa: Implications for Foreign Policy

Carol Lancaster

If there is one fundamental insight on the politics of economic reform in sub-Saharan Africa, it is that the constituencies supporting reform in Africa are weak and are likely to remain so for the foreseeable future. This emerges clearly from the patterns of politics there, from what is known about the experiences of reform in Africa thus far, and from the case studies in this report. This situation, together with the political changes in Africa, has important consequences for the economic success and political sustainability of economic reforms in Africa. The policy implications for the practitioners of reform will be explored in this and the following chapter.

As suggested in the first chapter in this report, for economic reforms to be successful in promoting sustainable long-term growth, they must stimulate not just expanded production with existing capacities but significant levels of investment in new capacities. And this increased investment, which must come primarily from domestic and foreign private investors, must itself be sustained over time. It is generally recognized that African entrepreneurs themselves will likely take the lead in making new investments in their countries. They are most familiar with local conditions and opportunities and make their homes in their countries. The problem with this scenario is that there are still few Africans with the entrepreneurial skills and experience and the capital to make new productive investments in industry (mining, manufacturing, or services). In agriculture as well, the mass of farmers have little capital and thus are limited in their ability to farm more extensively. But more importantly—particularly in the increasing number of countries where population pressures have reduced the land available for expanded cultivation—they often lack the technologies to permit a sustained increase in the intensity and productivity of cultivation on existing plots of land. And they frequently confront problems of inadequate infrastructure and transportation in marketing larger harvests. As a result, the supply response of investment in profitable opportunities created by reform programs is slow. Producers have expanded the use of existing capacity, reactivated earlier enterprises (e.g., gold mining, and timber cutting), or, where possible, have shifted to more profitable production within existing capacity (e.g., shifting from food back to cocoa production where cocoa trees still existed or could be easily replanted and where cocoa prices were favorable).

Part of the reason for the slow supply response by investors is that reforms, albeit broad and sustained, are still inadequate to create the minimum "enabling environment" for investors. In Ghana the disarray in the financial sector continues to be a major obstacle to new investment. In a number of countries labor laws preventing the firing of employees and other regulations discourage new investment. The on again-off again reform programs

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in Zambia and official corruption and unpredictability in Kenya and The Gambia discourage investment. But even where these problems are not decisive, the supply response by domestic investors in industry is likely to be slow, simply because there are so few who can respond and major increases in agricultural production are unlikely to be sustained in the absence of technical and infrastructural advances.

The absence of a class of competitive capitalists in most of Africa also limits the political constituency for many reforms and possibly limits the constituency most likely to demand predictability, accountability, and probity in government. Even in democratic Gambia, where the media could have attacked corruption and mismanagement in government, these issues apparently played little role in national politics, with the result that governance and economic management was no better there than under many of Africa's more autocratic regimes.

The problem of the missing middle is complicated in a number of African countries by the presence of nonindigenous residents (Asians and Lebanese) who could make new investments but who are feared and resented. Here political logic runs directly contrary to economic logic, and past experience suggests that political logic normally prevails. The strong resistance on the part of the Kenyan government to liberalizing internal grain marketing arose in part from fear of Asian economic domination. The mass of Africa's small farmers who are the presumed beneficiaries of economic reform programs remain weak politically and still cannot provide a constituency for reform.

The question of ideas arises in what has been up to now a discussion of the interests affecting economic reform in Africa. Is there any sign that the experience of reform thus far and the efforts by foreign governments and international financial institutions to educate Africans on the need for reforms have expanded the proreform constituency? To what extent does social learning by African officials explain the degree of reform in their countries thus far?

The cases in this report suggest that social learning appears thus far to have played a minor role in the implementation and maintenance of reforms or in creating a constituency adequate to sustain reform in African countries. In each of the cases included here, it was an economic crisis combined with pressures from external financing agencies that put economic reform on the government's political agenda. And it was continuing engagement and surveillance on the part of external agencies that played a key role in the implementation and maintenance of reforms. Where external financing agencies lacked a unified position, as in the case of Kenya, or lost interest in the maintenance of the reform program, as in the case of The Gambia, reforms were often undermined or reversed. This does not mean that there are not those in African governments in favor of reforms, that their impact on the implementation and maintenance of reforms is not critical, or that their ranks cannot be extended through social learning. But these individuals remain few in number and by themselves appear to constitute too weak a constituency to sustain reforms.

However, there may be cases, like that of Zambia under the government of Kenneth Kaunda, where no amount of donor pressure—even terminating aid programs—can persuade or force a government to implement reforms. In short, there may be countries in which reform programs are simply not feasible until the political leadership changes and/or the constituencies opposed to reform are weakened or change their views.

To sum up, evidence from case studies on the politics of economic reform in Africa suggests that the weight of political influence in most countries remains with those opposed to reforms, that persuasion and education programs undertaken by external agencies have not yet created a significant constituency to counterbalance antireform forces, and that the role of external agencies remains decisive in putting reform on the African political agenda and in ensuring that reforms are implemented and maintained.

However, as the case studies show, other factors also influence the implementation and maintenance of reforms. There appears to be little support for reforms among most Ghanaians, yet that country's government has implemented and maintained an extensive array of reforms over nearly a decade. External pressures were undoubtedly important in shaping the direction of reforms in Ghana, as the case study demonstrates, and probably in ensuring that the reforms were implemented and maintained. But other factors also appear to have contributed to the reform experience in Ghana, including the fact that the economic crisis there was so severe, that the reforming government was strong (and perceived as ruthless) and newly installed, that there was a measure of consensus and delegation among the policy elite, and that the minister of finance in particular was competent and skillful politically.

The case studies, particular those of Ghana and The Gambia, underline another important point. Despite the strength of groups opposed to reforms, governments, both democratic and autocratic, can adopt and implement reforms that go against the interests of those groups. Governments have a measure of autonomy, or "policy space," although even African political leaders themselves may at times be unsure how much autonomy they actually have until they experiment with specific reforms. That policy space, in turn, may be expanded by the pressures of external agencies to implement reforms, enabling governments to tell the opponents of reform that they had no choice but to implement them.

Political skills of government are also important in influencing the degree of policy space. In the case of Ghana, it appears that the government's ability to implement a devaluation of the cedi without significant political opposition was enhanced by its political skills—in effect, it was able to increase its policy space on this issue. In the case of Zambia, the government appears to have done exactly the reverse. Its inept implementation of policies to reduce maize subsidies helped provoke a violent reaction and led to the jettisoning of the entire reform program. However, we do not know for sure whether the ineptitude was a result of the limited capacity of government or a manifestation of political opposition on the part of key policymakers to the reforms.

It may be in terms of policy space that the most learning vis-à-vis reforms has taken place in Africa. One of the first types of reforms faced by most governments has been currency devaluation. This reform was strongly resisted initially, based on government fears of the economic and political problems it would create at home. President Julius Nyerere of Tanzania is reported to have declared to a senior World Bank official that devaluation would produce riots in the streets of Dar es Salaam. One after another African government, including that of Tanzania, devalued its currency without major public disturbances. The impact of devaluations on prices was often far less than anticipated (since black market prices had long since reflected the scarcity of foreign exchange) and widely diffused. Africans learned that devaluations were manageable, and governments learned how to manage them, both politically and technically. They are perceived as far less fraught with political danger now than they were just a decade ago.

Governance and Democratization in Africa

As noted earlier in this report, the slowness of the investment reponse in African countries undertaking economic reforms has provoked the World Bank and others to look further for obstacles to increased investment. The principle obstacle the Bank has come to focus on is that of "governance", defined by the Bank as "the manner in which power is exercised in the management of a country's economic and social resources for development."[1] This definition is so broad as to cover just about everything governments do in the economic area, including policy choices, the structure and functioning of public institutions, and the behavior of public officials of all kinds. In fact, the Bank has policies and instruments of its own to influence the policies, structures, and functioning of public institutions in borrowing countries. What it has not attempted to deal with in the past in any significant way and where its instruments are lacking is in the third of these categories: the behavior of public officials. And it is here that the Bank appears to be focusing its attention when it speaks of "governance"—the absence of the rule of law, unpredictability on the part of public officials, and widespread corruption. These conditions exist in Africa, according in the Bank's view, in large measure because of the absence of transparency and accountablity in the way African governments function. The centralization of political power, lack of an independent judiciary, control of the media, and absence of opposition political parties have permitted governments to act without informing their peoples or seeking their consent and have relieved them from justifying their actions to their citizens. Greater transparency and accountability on the part of Africa's political leadership would reduce the problem of poor governance in the region. And while the Bank is careful not to prescribe the political changes that would bring about greater transparency and accountability, it seems clear that they involve more open, competitive political systems—in short, more democratic political systems.

The governments of the United States, the United Kingdom, France, Japan, and others have not been hesitant to urge Africans to implement political reforms leading toward democracy, to tie a portion of their aid to the implementation of such reforms (or at least, to threaten to do so), and to finance activities in African countries aimed at promoting democratization, rewriting electoral codes, and financing national conferences to rewrite constitutions.

Striking changes have taken place in Africa during 1990 and 1991 in the area of political reforms. Political prisoners have been freed, the media decontrolled, opposition political parties unbanned, constitutions rewritten and elections held. In some countries—including Benin, Congo, Niger, Togo—these changes have been quick and dramatic with "national conferences" rewriting constitutions, installing interim governments and setting dates for elections. In other countries, like the Côte d'Ivoire or Tanzania, change has been slower.

In Cape Verde, São Tomé, Benin, and Zambia elections have been held, and new governments have assumed office. By the end of 1991 few countries in Africa had failed to initiate some major political reforms.

These changes were the result primarily of massive public discontent over the sustained economic failure of African governments and a willingness by the public to take to the streets or to participate in strikes to express their discontent. Often discontent arising from economic decline turned to demands for political change. At other times sitting governments initiated political reforms in an effort to diffuse public discontent. And once several African governments had initiated major political changes, the pressures rose for others to do so. The changes through a national conference in Benin in 1990 have probably had the greatest effect in the region, above all in francophone countries.

The pressures from Western governments on Africans to democratize have reinforced internal pressures for political liberalization. But the driving force behind these changes appears to be internal, not external. And what appears to have given rise to these demands for change now is the sustained failure of Africa's autocrats to deliver the economic goods they had promised and on which they had justified the establishment of autocratic rule in the first place.

The political changes sweeping Africa today raise several questions pertinent to this study. First, will they lead to improve governance and, if so, to more rapid economic recovery and growth? Second, what do they suggest for the policies of international and bilateral aid agencies towards Africa?

Policy Implications

It is in the nature of most human beings to wish that all good things go together. In the view of many inside and outside Africa, democracy and development go together and the democratization of Africa today is likely to promote more rapid development in the near future. However, reality appears more complex and somewhat less reassuring.

First of all, democracy does not guarantee good governance. The case of The Gambia is a good example from Africa of this point. That country has remained democratic since independence, although the sitting political party has never lost an election. Nevertheless, that country's government has pursued economic policies and many of its officials have behaved in corrupt and unpredictable ways not dramatically different from officials of many of Africa's less democratic governments. The experience of The Gambia appears to suggest that something more than democracy is necessary to ensure good governance. At a minimum, even where accountability and transparency exists in theory, the citizens of a country (or at least key groups of them) must demand information, require the political leadership to explain and justify its actions, and penalize a leadership that is incompetant or corrupt if good governance is to be assured. This has clearly not been the case in The Gambia and is not an automatic result of the existance of democratic political structures.

It is also the case that good governance can exist where there is no democracy if the political leadership is competent, responsible, and disciplined. Drawing on an example outside of Africa, the government of General Park Chung Hee of Korea during the 1960s, which set that country on its successful growth path, was highly autocratic but, in contrast to its predecessors, practiced good economic governance. It is possible to argue that the government of Flight Lieutenant Jerry Rawlings of Ghana today has pursued policies of good economic governance, in contrast to its democratically elected predecessor.

In short, we know that good economic governance is necessary if economic growth is to occur. But we cannot say that democracy guarantees good governance, nor can we say that autocracy prevents it. It may well be that the existence of a democracy, particularly a mature one in which the bulk of its citizens actively participate and in which its media are well informed, makes good economic governance more probable. And it may be that the existence of autocracy makes poor governance more likely for all the reasons we have discussed. But it is clear that all good things do not automatically go together. And this may be especially the case in Africa where democracy is new and economic problems are great.

What appears more likely to be the impact of political liberalization in Africa is that the implementation of economic reform programs will become more complex, time consuming and possibly more difficult otherwise than in the past. In more open societies major economic changes, particularly those adversely affecting large numbers of citizens, require a measure of negotiation and consensus not always needed in autocracies. Debates and concensus building often take place in legislatures, which usually must approve reform programs. They also take place around elections where reform programs, particularly if they have proven disappointing in their impact, can become major campaign issues. The recent political changes in Africa add a special set of problems to economic reform programs. Most governments in the region continue to face the necessity of reducing their expenditures to achieve a balance in their budgets and to help close the gap in their balance of payments. Reducing government expenditures typically involves a reduction in the government wage bill either through decreases in salaries or employment. But the groups which have been at the forefront of demands for political change have often been the unions representing public servants. The unions expect rewards for their role in bringing about political change in the form of salary increases for their members, not decreases in salaries or employment. The tensions over economic reforms between new governments and unions have already surfaced in Benin and Congo and are likely to appear elsewhere as well. They are but one example of the difficulties facing newly democratized governments as they turn their attention to their countries pressing economic problems.

These new governments face a truely daunting dilemma. They came to power because their citizens were fed up with the economic failures of the past. They will be judged on their abilities to promote economic growth and if they fail to do so, they will be vulnerable to being overthrown by restive militaries promising better economic performance. But to bring about economic improvements, these new governments must tackle their countries' very real economic problems with needed reforms. These reforms, however. are likely to hurt the interests of those groups that have gained a political voice and a measure of influence in the new democracies. We do not know how much time the new governments have to prove themselves to their peoples before their militaries see opportunities to take back power. But that time is not likely to be great, given the economic discontent of the people.

What are the implications of the politics of economic reform and the political changes sweeping Africa for foreign aid donors? For those like the Unitd States support both economic reform and political liberalization, there are also complex dilemmas. The new democracies are typically in dire financial straits, with major external debts to multilateral institutions, like Zambia, or simply bankrupt, like Benin, Congo, and others. To reward the new governments with substantial increases in aid may for a time facilitate the consolidation of democracy in those countries. But large increases in aid will also reduce the incentives for the new governments to deal with their economic problems. And where significant amounts of external financing are channelled through the new governments, the temptation to garner political support primarily through patronage (rather than policies and programs) could undermine the credibility of the new government as well as the independence of opposition parties. The channeling of substantial sums of aid to the new political institutions and organizations, in an effort to ease their very real financial problems, could also undermine the independence and credibility of those organizations.

Another difficult dilemma now facing aid donors as they attempt to promote both democratization and development in Africa arises when a democratically elected government is overthrown by a military coup or other illegal seizure of power. Should aid donors terminate their aid as a means of discouraging such coups? Legislation already on the books in the United States requires the US government to terminate aid when a democratically elected government is upset in a military coup. But what is the likely impact of tying aid for development, often used to finance projects which take years to implement, to political changes? And what should be done when a military coup overturns an inept or incompetent democratic government? There are no easy answers to these questions. But one point seems relevant: policies that leave administrations with no room for flexibility to evaluate each situation in accordance with both advancing democracy and economic development may well end up defeating both goals.

More than ever before, aid donors face a complex set of development problems in which aid can be both helpful and harmful if it is not deployed with knowledge and good judgement.

Notes

1. World Bank, *Managing Development: The Governance Dimension*, Discussion Paper, Washington, D.C., June 26, 1991, p.1.

Chapter 10
Reform and Politics: Guidelines for AID Practitioners

David F. Gordon

Background

Since the early 1980s the United States Agency for International Development (AID) has actively supported economic policy reform in Africa. The factors behind AID's growing involvement in policy reform parallel those of the IMF, the World Bank, and other bilateral donors—the consensus that policy problems have become an increasingly binding constraint on economic development in Africa and are also minimizing the impact of foreign assistance programs. Working within the broad framework generated by the IMF and the World Bank, AID became involved in both project and program activities designed to encourage the implementation of more appropriate economic policies.

Over the course of the last decade AID has moved ever deeper into policy-oriented activities in Africa. In the early 1980s AID supported macro-economic policy reform activities in several African countries including Sudan, Somalia, Zaire, Liberia and Kenya through conditionality-based cash transfers under the mechanism of the Economic Support Fund (ESF), the political support side of American foreign assistance. These efforts to utilize ESF for policy reform purposes were not very successful, mainly because there was little credible threat that ESF resources would be withdrawn in the context of noncompliance, given that all of the countries involved were recipients of ESF because of their strategic importance to the United States. With the exception of Kenya, African recipients of large volumes of ESF have not been active reformers.

At the same time AID also played a leading role in early efforts at agricultural marketing reform, building on the Agency's long experience in development projects within this sector. These efforts were more successful and became a model for later policy reform efforts at the sector level. In the mid-1980s the African Economic Policy Reform Program (AEPRP) was introduced. AEPRP was designed to be a more flexible instrument to encourage economic reform and to deepen the institutional incentives for missions to undertake policy-based activities.

In 1987 the US Congress created the Development Fund for Africa (DFA), increasing development resource flows to Africa and giving AID more flexibility in its African operations. The necessity for policy reform is a major underlying theme of the DFA. Indeed, the importance of policy reform in the DFA is such that two of its four strategic objectives refer directly to policy reform themes. These are, first, to "improve the management of African economies by reducing the role of the public sector and increasing its efficiency"; and, second, to "strengthen competitive markets to provide a healthy environment for private sector growth." Under the DFA, the Africa Bureau has been allowed to devote up to 30 percent of its total resources to nonproject assistance (NPA) in support of policy reform. As the Africa Bureau's budget has rapidly increased in the past two years—from $650 million to $1 billion—with no commensurate increase in personnel or in operational expenses, the Bureau leadership has increasingly looked to NPA program assistance as a way of coping with the management problems created.

Under the DFA, Congress has defined AID's niche in policy reform activities as that of "sector assistance," leaving primary responsibility for addressing macroeconomic issues to the multilateral financial institutions. While AID missions are no longer supposed to undertake grants in support of macroeconomic reform, they are still encouraged to participate in policy dialogues concerning macroeconomic issues. A number of AID missions in Africa continue to play a major role in discussions of macroeconomic as well as sectoral reform issues. AID has interpreted "sector assistance" as focusing on a "set of economic activities unified by a common output narrow enough to have an analytical identity and broad enough to encompass significant investment and policy issues." Examples of "sectors" are not only traditional economic sectors, such as agriculture and industry (and their sub-sectors), and not only traditional social sectors such as health and education, but also sectors such as "exports" and "financial markets." The definition is clearly broad enough to encompass any group of activities that can be analytically defined, leaving aside balance-of-payments support and other macrolevel issues.

Under the DFA, AID missions in Africa have been actively involved in the design and implementation of both program and project activities in support of these two strategic objectives. At the same time the Africa Bureau in Washington has been developing monitoring and evaluation mechanisms for assessing these initial activities under the DFA, with an eye to improving the overall impact of AID's policy-related activities and enhancing their ability more rapidly to improve living conditions for the African people.

Donor-supported reform activities in Africa, including those undertaken by AID, have served to put new issues and ideas on the policy agendas and into the public debates in most African states. In a number of countries that have been most successful in undertaking reform agricultural production has been once again placed on a positive track, economic growth rates have risen, and export volumes have begun to expand. On the other hand, in general, the implementation of reform has proven to be significantly more difficult than had been foreseen by the donors. Targets in macro-economic and sector reform programs have had to be continually adjusted downward and the timing of such programs has had to be extended. In particular, institutional reforms proved to be much tougher and to take much longer than envisioned. In a number of countries reform efforts were only half-heartedly undertaken by governments that were seeking donor resources or became victims of political unrest. Nowhere in Africa have policy reform programs generated the significant new levels of private investment that will be needed to restore self-sustaining growth. The limited success of policy reform efforts had been the source of continuing Congressional skepticism towards AID's efforts and have led the Congress to pressure the Agency and the Bureau to demonstrate people-level impact and involvement.

AID, like the World Bank, has slowly come to the realization that political analysis has an important role to play in the design and implementation of policy reform. Political factors are important in understanding the context within which economic reform takes place, whether or not reform programs are initiated, and how reform programs are (or are not) implemented. The Agricultural Policy Analysis Project II, begun in 1988, included a module devoted to gaining a better understanding of the political economy of agricultural policy reform. In 1989 AID's regional office for East and Southern Africa created a full-time position for a political economist to provide input into the design and implementation of AID's policy reform activities in that region. In 1990 AID developed the Implementing Policy Change Project, which combines strategic management and political analytical inputs with more traditional technical assistance elements in order to enhance the ability of government and nongovernmental agencies to implement policy reform initiatives. Most recently the Africa Bureau has been especially concerned about the potential impact of political turmoil and political liberalization on economic reform and is addressing this issue as part of the research agenda of the Bureau's Democracy and Governance Project.

The purpose of this chapter is to examine the implications for AID policy reform practitioners (both in the field missions and in Washington) of the findings of the CSIS study of the politics of economic reform in Africa. The analysis will also take into account other studies of the political economy of reform in Africa. After presenting some of the most salient general political economy lessons, I will look specifically at issues concerning program design, policy dialogue and donor coordination, and program implementation. The analysis focuses both on policy reform in general and on the specifics of AID sector assistance.

Before proceeding, it is important to stress that political analysis is not, and cannot become, a technocratic "fix" that can be easily and directly applied to improve the performance of policy reform efforts. AID officers looking for such a "fix" will go away disappointed. The case material presented in this and other studies reveals no easy political formula for successfully undertaking and sustaining policy reform. The countries studied shared very few common characteristics of reform, suggesting that the politics of reform vary greatly depending upon the context. Nevertheless, political analysis can be a useful tool for policy-reform practitioners. The political analyses undertaken in this and other studies do contain important insights, findings, and questions that, if kept in mind and applied thoughtfully and consistently, will enable officers involved in policy reform work to do a better job at the very difficult tasks that they face.

"Political Economy Lessons" For Policy Reform Practitioners

One. There are two competing "stories" concerning the relationship between policy-based resource transfers and economic reform. The "optimistic story," propounded by the World Bank and others, is that the financing provided by donors facilitates policy reform by lowering the political risks attached to it and increasing the speed and likelihood of a supply response. The World Bank's analysis of successful policy reform suggests a "virtuous cycle" in which donor resources, in the context of a firm government commitment to reform, help to close the financing gap and increase the likelihood of private investment while at the same time serving as a source of discipline against policy back-sliding.

The "pessimistic story," propounded by critics of structural adjustment, such as Duke University's Robert Bates, is that donor financing limits the imperatives for fundamental adjustment (especially in contexts where governments continue to dominate the economic and political landscape) because it allows them room to revive their "previous way of doing business." Bates believes that adjustment, far from promoting the private sector, is a strategy for government to reclaim its leading position in the economy, a position it has generally lost to parallel markets because of excessive policy distortions.

Empirical evidence can be found to support both of these scenarios, which implies that the role of external financing is not predetermined, but depends on the specifics of the context. The point for policy reform practitioners whose institutions tend to promote the "optimistic" story is that they need to keep the pessimistic scenario in mind, lest it become a self-fulfilling prophecy. **The lesson is that policy-based program support is inherently risky business; it does not automatically support adjustment efforts.** Program assistance is not an instrument that can be easily or indiscriminately wielded in a wide range of circumstances. This is not at all to suggest that policy-based program assistance cannot be an effective use of aid resources, but that the potential for misuse is probably greater than in the case of project aid. One way in which AID can limit the riskiness of program assistance is by limiting government access to the foreign exchange resources involved. This is best accomplished through pledging those resources to an Open General Import Licensing (OGIL) arrangement, a market-driven mechanism through which importers can directly access the resources in order to purchase imports.

Two. The second political economy lesson flows from the first and concerns what donor conditionality can and cannot accomplish. The case studies undertaken in this study reinforce a variety of other analyses in emphasizing the limited capacity of donor conditionality to promote policy reform. Donor conditionality displays an interesting "macro-micro" inconsistency. It is undoubtedly the case that conditionality has had a large "macro" effect; i.e., it has been critical in placing the issues of efficiency, markets, and an increased private sector role on the policy agenda in Africa. But the utility of conditionality in any specific "micro" context is far more limited. As the case studies demonstrate, donor leverage is virtually never a sufficient condition for producing successful policy reform.

While formal conditionality has become increasingly prevalent in Africa, in that more bilateral donors are attaching policy requirements to their assistance activities, the findings of the CSIS and other studies do not portray any more donor influence over specific policy outcomes today than a decade ago. This suggests that the profusion of conditionality has not been matched by an equally serious effort on the part of donors to exercise the leverage that conditionality theoretically provides. As a result, the overall credibility of conditionality has suffered. While the IMF has sometimes been able to achieve policy reform on narrow stabilization measures, especially devaluation, the use of the financial leverage of conditionality on the part of the Fund, World Bank, and AID has worked far less well for longer-range sectoral adjustment. **AID policy-reform practitioners need to realize that conditionality is a blunt instrument for promoting broader economic reform.** While it has been effective in placing the issue of policy reform on the agenda of many African governments and in *initiating* some reform efforts, it is far less capable of playing a positive role in *sustaining* reform.

Conditionality also has a serious downside. In general, the entire conditionality "game," whereby donors attempt to "buy" as much reform as they can with a given amount of money, while recipient governments try to get as much money from the donors as they can for as little reform as possible, draws government attention away from the serious need for economic restructuring by creating a context in which the benefits of reform become identified as increased donor resources rather than improved economic performance. Decisions concerning economic reform became responses to external pressures and attempts to maximize external resource flows rather than efforts to grapple with imperative domestic problems.

Examples from The Gambia, Zambia, and Kenya case studies further demonstrate that donor conditionality had the greatest influence *after* the donors had withdrawn at least a portion of program funding. This is also corroborated in other studies. **The lessons for AID practitioners are two-fold: first, they should not assume that program conditionality is in any way sufficient to achieve policy reform targets; second, holding back resources is an important instrument in gaining leverage for policy reform.** This, in turn, has implications for senior Africa Bureau management, who need to develop incentives for mission directors and other personnel involved in policy reform to withhold funds. In general, the Bureau does not appear to have seriously considered the need to develop a strategy for reconciling the imperative to disburse money with the need to maintain credibility in order to provide effective leverage to AID conditionality.

Three. Given the limits of donor conditionality, it is not surprising that the case material presented in the CSIS study found that initiating policy reform is but the first, and indeed the easiest, step in the policy reform process. Carrying out and sustaining reform has been much more problematic and difficult. Each country covered in a case study initiated substantial economic reform programs; only in The Gambia, and to a lesser extent Ghana, were these programs substantially carried out, and even in those cases policy sustainability has been a major problem.

But donor involvement, including by AID, is overwhelmingly focused on the reform initiation stage. Donors undertake extensive analytical work, develop policy agendas, and undertake policy dialogues with recipient governments. The goal of all of this is to reach agreement on a reform package. In recent years both the World Bank and AID have realized that such intense donor involvement in the initiation stage of policy reform has generated an "ownership" problem and have sought to more actively involve host-country personnel to address this problem.

Once a decision to change policy has been made, donors tend to see their job as largely accomplished. At intervals checks are made on compliance. But, in general, the decision is expected to lead directly to implementation. Even donor institutional support for policy reform is geared to the decision stage of the process. For instance, AID has given considerable resources to building policy-analysis units in ministries of finance and agriculture in the expectation that good analysis will translate into good decisionmaking and this into good policy.

The lesson here for AID practitioners is that while they should become less dominating in the design and initiation phase of policy reform, they need to become more cognizant

of, and involved in, the subsequent phases of the process. In addressing the subsequent phases of reform, one important question is under what conditions reforms succeed. Tom Callaghy and others have cited the importance of the "trough effect" in predicting successful reform. Changes are more likely to be made in a society in which a long experience of economic decline has limited the benefits that any group receives from the existing policy regime, while creating broad political support for basic changes.

Another theme that emerges from the case studies is the importance of individual leadership in promoting reform. In general, it appears that "reform champions" are an almost necessary condition for reform success. Finance Minister Sisay drove the reform process in The Gambia, as has Finance Minister Botchway in Ghana. Central Bank Governor Ndegwa championed exchange rate management reform, Kenya's most important policy reform success. In Nigeria, "Triple A," Alhaji Abubakar Alhaji, led the reform process, as has Senior Minister Bernard Chidzero in Zimbabwe. On the other hand, there was no parallel individual in Zambia or Mali (or, similarly, in Senegal, Sierra Leone, and other nonreformers.) While "policy champions" cannot ensure success (witness the overall failure of the "reform troika" in Kenya), their absence does seem virtually to ensure failure. **The lesson here for AID practitioners is that if there is not a very enthusiastic and competent senior official actively promoting the reform program, the program activity should probably be reconsidered and postponed.**

Individuals have also been very important on the expatriate side. Sometimes these have been donor officials, as in the case of Jim Adams and Ishrat Hussain, the World Bank resident representatives in Kenya and Nigeria, respectively. In other cases, they have been technical assistance personnel, as in the case of Malcolm McPherson in The Gambia and Michael Roemer in Kenya. Indeed, in many cases, a major key to policy reform success has been the combination of a host-government policy reform champion and a highly effective expatriate who combined technical competence, political savvy, and astute inter-personal skills capable of complementing host-government allies. **At a time when foreign technical assistance in Africa is under intense (and largely justified) attack, AID practitioners should avoid the temptation of leaving the implementation of policy reform out of their agendas.** The fact that too much technical assistance has been wasted does not take away from the key role that appropriate technical assistance has to play in the implementation of policy reform.

Four. The analyses undertaken for this and other studies of the politics of economic reform in Africa suggest that the overall domestic political environment for sustaining reform in Africa is not very good. Of the five countries examined, three—Ghana, Kenya, and The Gambia—have had periods of fairly intense reform, but in none of these countries has the political environment allowed economic reform efforts to become fully institutionalized and to bear the fruit of substantial new investment and lessened dependence on external donor support. In Mali and Zambia the political context for reform has been much worse. In general, the policy changes associated with economic reform are characterized by uncertainty and by norms and expectations that run counter to national political rhythms and to the policy goals of country officials. In addition, after thirty years of development dictatorships and African socialism, there is very little understanding of, nor advocacy for, basic economic ideas that are taken for granted in the West concerning the operations of markets and the role of entrepreneurship.

In the context of the weak domestic environment for reform, external agencies, such as AID, have become the main protagonists of economic reform in Africa. **The external agencies will have to remain actively involved in the promotion of economic reform in Africa if these programs are to endure.** But, as discussed above, donor leverage and support is not a very strong base upon which to base policy reform efforts. This is why donors, including AID, are increasingly concerned with the question of domestic "ownership" of the reform process.

The lesson of this is not that policy reform efforts are doomed to failure, but that AID officers need to think about policy reform not only in the short-term sense of specific policy-reform programs but also in the longer-term sense of shaping an improved societal environment for reform. This involves working on activities to promote economic literacy and shape the overall intellectual environment. These efforts should be directed not only at government officials, but also the media, unions, the military, and other groups likely to have an impact on the adoption and implementation of reform. While by themselves such efforts will not produce a decisive proreform constituency in African countries, they might serve to strengthen the constituency for reform.

AID can also undertake activities that promote the organizational strength and capacity of those sectors that are "winners" from economic reform, but have thus far been politically weak in most African countries, especially farmers and competitive businesses. Political liberalization is creating a context in which these types of activities are likely to become more viable than they have been in many countries in the past. Support can be provided either through projects that facilitate specific policy reform programs or in project activities that are not "policy-based."

Five. The model of economic reform that has been pursued by the international donor community (including AID) is intended to have three steps. First, basic macro-economic stability is restored through appropriate exchange rate management and effective fiscal and monetary policies; second, structural changes are put into place so that prices reveal true market scarcities; third, on the basis of the first two steps, entrepreneurship is enhanced and new private investment takes place. Without the third step, economic reform is virtually meaningless, will be almost impossible to sustain politically, and thus will be nearly always doomed to failure. Unfortunately, in most of Africa this three-step process of successful reform has been short-circuited, with the most problematic element being the very disappointing investment response. Enhancing entrepreneurship and generating new investment has been the missing dimension in economic reform so far in Africa.

The lesson here is that AID policy reform practitioners need to think much more directly about how economic policy changes can improve the investment climate and generate more investment. They also need to work more directly with the private sector to ensure that it is able to respond successfully to the new environments that policy change creates. Both of these are unlikely to occur without the direct and more active involvement of the private sector (broadly defined) in the design of policy agendas, in policy dialogues with government, and, indeed, in the actual implementation of reform programs.

The mere fact that donors and governments have declared that the enabling environment is much improved over past conditions has been insufficient to warrant significant private sector investment. The cases of Ghana and Kenya describe how, even in countries that have had active reform programs, changes in formal procedures have been more apparent than real and have been insufficient to address the extent of the problem. The lack of real change in the way governments operate depreciates the rhetoric of reform in the eyes of the private sector.

The case material strongly suggests that generally African countries have instituted such changes more to secure donor resources than in response to organized domestic political constituencies or to a deeply held belief in the need to increase private investment. If that is the case, then donors have the responsibility to ensure that private sector concerns are met before resources are committed, while at the same time working with government officials to change their attitudes towards the private sector. Experiences elsewhere in the developing world suggest that such a change is not impossible. For instance, the successful shift to export-led development in Costa Rica was accompanied by bringing both the private sector and "popular" organizations into a much more substantial policy role. In Mauritius an effective collaboration between the public and private sectors has also been developed.

Six. The cases reviewed in this study, while emphasizing the political difficulty of economic reform in Africa, at the same time support the conclusion that there is no real alternative to fundamental structural adjustment for restoring economic health to African nations. This notion is increasingly accepted among African technocrats. Even as late as the mid-1980s there was broad support in Africa for a "third-way" alternative to donor-supported structural adjustment. Interestingly, the intellectual articulation of such a "third way" was delayed until 1989, when the ECA presented its "African Alternative" to adjustment. What is interesting about the ECA report is that despite its impact on the international debates concerning adjustment in Africa, it has mustered little intellectual support among senior African economic officials. This suggests a learning process taking place about the inevitability of adjustment.

Similarly at the country level, in several cases, governments have become more positively inclined towards fundamental adjustment following failed experiments with "heterodox" strategies. Such has been the case in Tanzania. Recent debates about economic policy in Zambia, both within the government and in opposition circles, also reflect a new recognition of the lack of alternatives to adjustment. A similar story can be told of Zimbabwe, where the ten-year economic policy deadlock appears to be finally breaking. **The lesson here for AID (and other donor) practitioners is that in a negative political environment it might make more sense to let governments learn through experience the futility of alternative approaches, rather than attempting to push through a politically unrealistic adjustment program before the conditions are appropriate.**

Seven. The cases examined in the CSIS study describe the donor fixation with appropriate technical analysis as the cornerstone of successful policy reform. But the cases also show that the reality of policy reform is that it is an intensely political process, in which appropriate technical analysis is but a relatively small part. This should surprise no one. Consider, for a moment, the policy-making process in Western democracies. While technical analysis is often very important in shaping the contours of an issue, it is almost never the key element in the overall decision process. Interest groups make their various pitches, and bureaucratic interests shape the debate. It is these latter elements that make the policy process politically credible and bureaucratically viable in Western polities. In Africa these elements have all too often been missing in policy reform efforts. By addressing policy reform as a technocratic problem rather than a political process, donors have limited the possibility for its success.

Why, then, have donors approached policy reform in Africa with such a technocratic bias? There are four main reasons. The first is that technical analysis is the "comparative advantage" of the donors, especially the IFIs. It is what comes naturally to them. The second is that the technocratic basis for policy-making has been especially weak in Africa. Indeed, it was virtually nonexistent in many countries. Third, a technocratic approach limited the vulnerability of donors to charges that they were eclipsing the sovereignty of recipient governments. Finally, in some cases, a technocratic approach was part of an explicit political strategy of de-politicizing economic reform issues. This was the case in exchange-rate policy reform in Kenya.

These are all valid reasons for a technocratic approach by the donors, up to a point. But problems appear when technical analysis comes to drive donor approaches at the expense of political realities. Technical analysis can sometimes generate choices that, for political reasons, are counterproductive. This appears to have occurred in Zambia. There are also other cases in Africa in which this has occurred.

To understand better how this happens, consider the case of export promotion. As a strategy for enhancing growth and reigniting foreign investment, many African countries are attempting to promote exports. AID missions are involved in a number of these efforts. Exchange rate depreciation is the technically easiest and most straight-forward mechanism for enhancing export competitiveness, which is a key element in generating new foreign investment. The Africa Bureau's chief economist has often proposed that African countries should attain a mildly undervalued exchange rate. But a rapid depreciation of the exchange rate, especially in a context in which foreign exchange transactions have predominantly remained in the formal economy, will sharply decrease real wages and may very well generate political unrest. In the context of unrest, new foreign investment is almost inconceivable, while domestic investors are unlikely to shift from domestic-oriented to export-oriented production because they fear that government will not be able to maintain the new exchange rate policy. In such a context, even if the policy reform is maintained in the medium-term , export growth is not achieved. Thus, the political dimension of reform can render the "technically efficient" choice counterproductive in a very practical sense.

The lesson here for AID practitioners is the need to strike a balance between economically viable and politically feasible policies. In general, practitioners should be wary of "first-best" policy alternatives; they generally will not work. The world of policy reform is overwhelmingly the world of second- and third-best choices. This suggests the need for technical analysis that is informed by political realities and is focused on generating these second- and third-best choices. Usually, this is a much more difficult exercise than developing maximizing choices. A challenge for such technical analysis is to determine a minimum threshold for reform impact, below which reform efforts become meaningless. AID reform practitioners, in turn, need to be able to steer their policy dialogues between the Scylla of overambitiousness and the Charybdis of minimalist irrelevance.

Policy Reform Program Design Issues

A number of the general political economy lessons addressed in the previous section deal with program design issues. While I have stressed the overemphasis within donor programs (including AID) on the design phase of the reform process, this does not mean that design is unimportant. On the contrary, it is very important. **The broad lesson for AID practitioners is the need to take political issues seriously at the design stage of policy-oriented programs.** Currently, the Africa Bureau guidance for nonproject assistance does call for an assessment of the political viability of each proposed program. But such an approach is insufficient, especially in longer-term, institutionally oriented sector assistance programs.

In programs in which only discrete policy reforms are undertaken, political analysis is relatively less important because the reform package can be "front-loaded"; that is, the disbursement of resources can be based on the government implementing the bulk of the program. But, increasingly, reform programs include a sequence of policy reforms plus significant institutional changes. In such a case "front-loading" is not possible, and effective political analysis has a greater role to play due to the always present possibility that government's motivations in seeking the program are to access donor resources rather than to undertake policy and institutional change.

For sector assistance programs, AID missions should build political analysis into the design process itself, in order to better ensure that the outcome of the process is a politically feasible program. In addition, the design process itself can be structured in such a way that the political feasibility of the program is enhanced. A thorough political-economy analysis that begins at the very early stage of program design can throw light on a range of political elements that will have an important impact on whether or not a program is likely to work. Five separate analyses should be undertaken by missions.

The first is a "donor-government bargaining analysis." Such an analysis would explore the ongoing relationship between donors and government on economic reform issues. It should look at (1) the credibility of conditionality in the particular country circumstance; (2) the balance-of-payments picture to assess government "need" for program resources; (3) the political status of key technocrats; and (4) the general relations between the Fund and the Bank and the host government.

The second is a "decisionmaking analysis" that examines the nature of decisionmaking within the issue area under examination with special attention to (1) who the key decisionmakers are, (2) the stability of patterns of decision making in a particular issue-area, and (3) the style of the decision-process; i.e., hierarchical, consensual, or idiosyncratic.

The third is a "current stakeholder analysis" that examines how the current policy and institutional arrangements in the issue area under consideration affect different groups in the society. This stakeholder analysis should be broadly cast and needs to look at the stakeholders within various government agencies as well as those groups outside of government. The analysis should also include an organizational component that examines the extent to which organizational structures have developed to support, or oppose, a particular policy or institutional arrangement and discusses the nature of these organizations, their links to other political interests, how they operate, etc.

The fourth is a "potential winner-loser impact analysis" that details how the various "stakeholders" will be impacted by the proposed policy and institutional reforms in the short, medium and long terms. Again, such an analysis needs to be very broadly cast.

The fifth is an "implementation capacity analysis" that examines the process by which the particular policy and/or institutional reform will flow through the system and assesses the ability of the institutions involved in implementation to actually get the job done.

The purpose of these analyses is to guide mission management in both the design of the program and in beginning to structure an effective dialogue with government. For instance, gaining an understanding of stakeholders in the existing policy regime provides insight into whether a "frontal assault" approach or a more gradual approach is likely to be more appropriate. The decisionmaking analysis is especially important in determining who in government are the key policy-makers and for structuring the policy dialogue. This is not always as straightforward as it seems. A recent analysis of AID's work on agricultural policy reform found that missions have focused too narrowly on agriculture ministries when real decisionmaking was occurring in the core economic ministries of Treasury and the Central Bank.

The winner-loser analysis is especially important in assessing the potential for active opposition to the reform process. Understanding potential winners and losers will allow dialogue between AID and host governments over whether or not the policy reform agenda should include some "compensation" for losers as a means of diminishing opposition to reform. Side payments-even if largely symbolic-to powerful groups opposed to reform to offset the impact of reforms on their interests is but one possibility. PAMSCAD in Ghana, ostensibly intended to offset the social impact of adjustment on the poor, also promised to provide jobs for some of those released from government employment. While never large enough to make a substantial impact on its targeted beneficiaries, PAMSCAD was a useful political symbol for government's continuing concern with social welfare. These types of programs will be especially important in public service reform programs aimed at reducing the size of the public sector. AID's ability to finance such programs on a grant basis enhances their attractiveness to governments. AID practitioners should consider such mechanisms for diminishing opposition to reform as part of the general process of assessing the political context of reform.

The political viability of policy reform programs is enhanced if the analytical and design processes are highly collaborative. Such collaboration should include voices from both government and nongovernmental actors who are expected to play an important role in the aftermath of the reform, especially the private sector. Such an approach improves political viability in several ways. First, collaborative technical analysis and design increases the likelihood that host government (and private sector) participants will feel "ownership" towards the policy and/or institutional reform package developed, rather than seeing it as a donor intrusion. Second, collaborative analysis and design gives the AID mission insight into the assumptions that various actors bring to the process and will help generate specific ways in which political feasibility can be combined with economic good sense. Finally, collaborative technical analysis and design will give insight about whether specific "side payments" might be needed to sustain the reform package.

Donor Coordination and Policy Dialogue Issues

In the early and middle 1980s AID policy reform efforts were often very closely coordinated with World Bank structural adjustment loans. At that time AID conditionality tended to simply overlap that of the World Bank. For several reasons, this pattern is less and less likely to be effective. First of all, the World Bank is no longer inevitably the "hard voice" of conditionality against which AID can measure its own role. The "hardness" of the Bank's position increasingly varies among countries, depending upon, a number of factors including Bank resources already in play, political pressures to support certain governments, and the individuals involved in the Bank operation, both in country and in the home office.

The point is that the Bank can no longer be consistently looked at as representing "toughness". For AID missions, this means that relationships with the Bank are likely to be much more varied and underlines the need for an independent AID voice on reform issues. This is reinforced by AID's shift to sector assistance, a level in which the Bank's expertise is much more varied and the policy issues at stake are less driven by strong technical assumptions. For such sectoral issues, many AID missions will have stronger in-house analytical capacity than will the Bank. In addition AID missions should utilize their larger presence to bring "ground truth" to Bank (and IMF) visiting teams. It is through such "donor dialogues" that AID can continue to play an important role even in macro-economic issues.

If AID is less able to defer to Bank leadership on policy reform, missions still need to coordinate with other donors, especially with the Bank. Policy reform should not be seen as a competitive game among the donors. Where this has been the case, it has increased the likelihood that host governments will use donor divisions to gain resources ... and avoid reform. The degree of donor coordination needed varies with the situation. In the case of an important and especially contentious issue—such as the maize subsidy in Zambia or grain movement decontrol in Kenya—very close coordination is needed among AID and its partners, especially the Bank. In other cases, it might be appropriate for an AID mission to focus on one or two key issues, within a larger sector program in which the Bank has an overall program, and work on ensuring that these reforms are achieved. It might also make sense for AID to "get ahead" of the Bank on an issue in which the Bank, for whatever reason, decided not to take an ambitious position. What should be avoided are policy or institutional reforms that are inconsistent with Bank programs.

In undertaking policy dialogues, AID practitioners need to keep in mind the limited influence of conditionality that was discussed above. **Policy dialogue along with effective technical assistance, rather than conditionality, are the most important ways in which AID can help achieve substantial policy and institutional reforms in Africa.** In fact, the most appropriate way for AID missions to think about conditionality is that it "buys" them an opportunity to engage in a meaningful dialogue with government over a particular issue or set of issues. There are a number of policy dialogue issues that have an important political dimension to them.

I have already made the case for collaborative technical analysis and design; a very parallel argument holds for increasing the breadth of participation in policy dialogues. A general lesson of donor policy reform efforts is that the dialogues accompanying policy reform have been too narrow—too narrow in that a political consensus over the issues involved has often not been achieved, and too narrow in the sense that all too often those involved in implementation of the reform process have had no role in its formulation, weakening the likelihood of effective implementation. Especially in the context of the political changes underway in contemporary Africa, there is a major role for nongovernmental actors to play in policy dialogue. This is especially important vis-à-vis private sector investment related issues. In general, policy reforms intended to promote investment have been designed by economists with only a theoretical understanding of the constraints facing particular sections of the private sector. AID practitioners should promote the notion of policy trialogue—donors, government, and appropriate nongovernmental actors—as a way of better defining an appropriate policy agenda.

A second issue facing AID practitioners in their policy dialogue work is "how much" reform should be attempted on a particular issue. This is partially a technical issue, especially at both ends of the continuum. There is usually a "first-best" solution based upon market efficiency criteria; at the other end, at some point a reform is so watered down as to have no impact at all. But the question is also a political one the answer to which depends on a series of factors. The first is the context of the reform. In general, when governments are initiating a major policy shift, i.e. a shift to export promotion, a large reform is needed to "signal" government seriousness. The exception might be in a context in which economic deterioration has not occurred and a broad consensus among those who must respond positively to the change is absent. As a rule, AID practitioners need to look at three factors when assessing the issue of "how-much" reform to seek: (1) the fit between the proposed reforms and the views and priorities of key officials; (2) the potential for political mobilization against the reforms; and (3) the institutional capability for implementation. **Getting the "how much" question right has important political consequences in that policy reform failure (or irrelevance) can often generate cynicism both on the part of government officials and among the groups in society, such as farmers and businessmen, whose responses are crucial to the economic success of reform.**

One of the most important features of policy dialogue is the opportunity it gives to AID practitioners to assess host government commitment to a reform program. Here form is more important than content. Because of their desire to gain the resources attached to policy reform initiatives, governments generally do not actively oppose reform. As discussed earlier, most reform packages need a senior host government "champion" to succeed. And that individual should not only champion the reform when "doing lunch" with the mission director, but should be proactive in the dialogue process. Proactive does not mean supporting the mission's line completely; it means actively engaged in seeking to fashion a political consensus in favor of the reform and actively looking for ways to ensure that the reform succeeds. Attitude towards the placement of high-level technical assistance is also a good check on government commitment. Even when "supporting" economic reform, the Zambian government deeply and successfully resisted donor efforts to place a senior adviser in the ministry. This was a sign of the lack of commitment to reform on the part of the government. The Zambian government's recent shift on this question is a signal that things might be changing.

A major political lesson for AID practitioners is that the policy dialogue is not over when the program is signed on. It is here that the practical difference between projects and programs comes out very clearly. In projects, after the signing the role of the mission tends to diminish to oversight by lower-level staff, as a contractor or some other delivery vehicle takes over the practical implementation along with host government personnel. In a policy-oriented program, the implementation of the reform agenda will depend upon maintaining an active dialogue over the life of the activity. This is exactly what conditionality gets—a place in the policy process.

Program Implementation Issues

As mentioned, a general lesson for AID practitioners is the importance of the implementation phase for the success of policy reform endeavors. Donors (including AID) have to overcome their tendency to see the signing of the program as the culmination of their involvement in policy reform if such efforts are to bear fruit. This will demand more effective monitoring of the issue area and ongoing direct contact between the mission and the key government agencies and nongovernmental actors involved in the issue. In implementing reform, missions have to maintain a difficult balance between the need for firmness and the need for flexibility. Those in government who are responsible for implementing reform need a level of discretion in their jobs, especially given the difficulty of designing complex sectoral programs and the continuing vulnerability of African countries to external fluctuations. At the same time, firmness is needed to prevent government from using "flexibility" as an excuse for essentially avoiding the reforms. Unless the AID mission is carefully monitoring the reform program, and following the various issues involved, it will not have the ability to know when flexibility is needed and when firmness is called for.

A major lesson from policy reform efforts thus far is that donor officials have consistently overestimated the capacity of organizations involved in the implementation of reform while underestimating the complexity of the reforms themselves. In fact, Samuel Paul's recent study of Bank sector adjustment loans (SECALs) concluded that the Bank tended to offer discrete components of technical support (such as a management information system or an agricultural pricing formula) when the real problem was the overall operation of the organizations involved. If policy reform efforts are going to succeed, AID and other donors must confront the need for fundamental institutional change in most African countries.

The problem in Africa has not been too much government as much as government doing the wrong things, government tangled in the web of narrow interest groups, and government becoming heavily politicized (less in support of a privileged group of business interests, as in some Latin American cases, and more in favor of expanding its own role for its own sake). While African governments have often expanded in size, they have contracted in terms of their ability to accomplish development goals. Most African governments continue to see their role in terms of controlling actors in the nongovernmental sectors. As a result, in Africa governments have generally taken a "market-hostile" approach to development.

One key to improving AID's policy reform efforts in Africa in the 1990s will be active involvement in changing the role of government institutions. The political effervescence of the past two years provides an environment in which such an approach can be attempted by donors such as AID. The rise of new regimes and new political forces has led to a broad questioning of the traditional manner in which African governments have gone about their business. Governments themselves are becoming less hostile to the notion of a more active donor role in institutional change.

African public institutions need to become facilitators of the rapid diffusion of information. They need to enhance their political and strategic management skills geared to a more open and plural environment. Most importantly, they need to gear their activities towards facilitating market-based transactions rather than directly controlling events through bureaucratic fiat. These changes will not be easy to achieve and they will take time; they are not likely to be possible without active donor participation.

Technical assistance will be needed to facilitate this process of institutional transformation. The design of such assistance must be a collaborative process between AID and the agency involved. Long-term technical assistance will often be needed, but its capacity-building tasks need to be emphasized over its "managerial" tasks. For such long-term assistance to be effective, it should remain at arms length from the AID mission. One lesson of technical assistance in support of policy reform is that donor efforts to "control" TA has been as counterproductive as African governments' efforts to control the development process. Such efforts have led to the loss of credibility of technical assistance teams and frustrations on all sides.

The viability of technical assistance focused on the implementation of reforms will also be facilitated if local consultants become a major part of the support package. This will, at the same time, increase the political viability of such efforts, build local capacity, and increase the likelihood of such reforms being sustainable after expatriate technical assistance is removed. Obviously, this will be easier to accomplish in some countries and very difficult in others. But AID missions should be encouraged to take some risks in this area.

The final point concerns the personnel requirements for AID missions to undertake effective policy dialogue and reform program implementation. There are several requirements here. First is that the mission be actively involved in program development and not allow consultants or Washington support staff to dominate the activity. Second is that the mission must have at least one staff member—be that person the mission director, the mission economist, or a consultant adviser—who is thoroughly at home with the technical issues involved and has developed wide relations with host government staff and with key actors in the nongovernmental sector. Third, the mission must generate a periodic political economic analysis of the reform program, undertaken either by a staff member or by a qualified consultant. Finally, the mission director must be able to "take the problem upstairs," i.e., be comfortable enough with the issues involved to make an effective case at the ministerial level when problems arise, as they almost inevitably do. **In addition, AID**

practitioners, including senior Bureau management, must recognize implementation phase of reform will be heavily staff intensive if it is to be Especially important in the implementation phase are highly qualified ho: individuals, either Foreign Service nationals or consultants.